S1 2019 Earnings Call

Company Participants

- Neil Manser, Interim Chief Financial Officer
- Penny James, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Analyst
- Andrew Broadfield
- Andrew Sinclair
- Edward Morris
- Greg Patterson
- Joanna Parsons
- Kamran Hossain
- Lain Pearce
- Sami Taipalus

Presentation

Penny James {BIO 15157212 <GO>}

Good morning everyone, and welcome to our first half 2019 financial results. I think we're few down so if we don't all on the way through than apologies and apologies for those who've had to dial instead of be here in person.

I'll just take a pause and say, thank you to Morgan stanley for hosting us And to simplify your lives we've also -- we're going to put the speech online straigh after this, on the website I just want to say, I am so proud and excited to be presenting today. Just the next stage of our journey, this is a great business with real potential, and I'm pleased with the progress that we've made in the first half.

So why don't I start by summarizing the first half on slide 4. With a backdrop of a highly competitive motor market, we have delivered a good financial results. We're on track to meet our financial target helped by the diverse business model, and the cost and underwriting discipline. Operationally, we've hit some of our key milestones on our path to transforming our competitiveness and strengthening our ability to grow sustainably. Now Neil will go through the financial details a bit later and give a little bit more context on the market environment.

But just to summarize the performance, we continue to grow our direct own brand policies, while maintaining underwriting discipline. And we've delivered a combined ratio of $92.5% as you know, reducing cost is a major lever for us to be more competitive. So I'm pleased to say that we're on track to achieve our operating expenses of less than GBP700 million for the full year. This discipline has meant we could deliver a good operating profit of GBP274 million, resulting in an annualized return on tangible equity of 21%. We've grown our interim dividend 2.9% to 7.2 pence, leaving us with a strong solvency position at the top end of the risk appetite range. We've also made great strides in our operational and strategic journey.

On the operational side, we've launched three new IT platform in the first-half key milestone on our multi-year journey, and I'll talk more about those shortly. And strategically, I've used the first few months as CEO to challenge ourselves and to look beyond the next couple of years. And ask are we focusing on right areas so that we will thrive onto the future. So what I've concluded? Well, I believe we're investing in the right areas and our business model is the right one. And in fact, an advantaged one, to capture the opportunities that lie ahead.

And our IT transformation aims to enable efficiency, pace of deployment and flexibility, all of which will be required to capture those opportunities. So we must operate and organize ourselves in a way that takes full advantage of that, and this is a priority for me. On slide 5 I'd like to take a moment to paint the high level strategic picture. Our aim is to give peace of mind to as many customers as we can through our multi-brand, multi-channel, and multi-product approach, we achieve this through distinctive strengths, that mean we can react, we can reach more consumers and offer them more choice.

We have trusted brands built over many years an innovative propositions that give us valuable relationship with our customers our data and insight. Gives us the opportunity to create value for our customers and our shareholders.

Our vertically integrated claims model gives us advantages on claims cost, enables industry-leading propositions, and gives us good insight on claims and Car Technology trends. And we have talented and passionate people, you can see this with the three new executive appointments I made last month, homegrown talents who between them have nearly 35 years with the organization. And this talent runs all the way through the business. For any of you that have visited our sites or have used our customer services, you will note firsthand the quality of our people.

Looking to the future though, I expect consumers to demand easier journeys and personalized product. And with this in mind, I believe that our comprehensive channel -- channel strategy equips us well having a direct channel gives us a relationship with our customers, which allows us to better understand in a unique way their needs and meet those requirements. As a result, direct is a real driver of value for both our customers and our shareholders and is a channel that will continue to be very important to us. The intermediated channels such as price comparison and partnerships, are both significant and evolving as well.

On price comparison site, we're good, but we want to be great, and we expect the nature of partnerships to evolve. Combining our partnership skills with the strength of our brands, means that we can create real competitive advantage here. Now there are two critical enablers, which when combined with our strength aim to underpin sustainable improvements in our competitiveness. And they'll help us respond to customer's evolving needs.

The first is technology transformation. I have said to many of you before, that with our legacy systems it would be difficult to compete profitably in commoditized channels, like price comparison. Here, the cost, speed, data and flexibility really matters. So I'm excited by the technology capabilities that we're developing to improve our competitiveness.

The second is business transformation. To realize the full benefits of our new technology and grow the business, we need to work in a different more agile way to deliver a faster deployment of change.

Over the coming slides, I'm going to focus on the IT platform we've launched this half. The benefits we expect to get from them, and give a glimpse as to how the transformation of IT is fueling the transformation of our business.

Turn to slide 6, here we're trying to show the overall IT platform picture. You can see, I'm not exaggerating, when I say, that we are transforming virtually every IT platform in this business. 2019 has seen us achieve some significant milestones, but actually we've been steadily building and delivering for some time now. As you can see on the slide, each program is at a different stage in its delivery and with benefits likely to emerge at different time scales.

Our investments aim to materially improve our competitiveness for the market as it is today and to set us up for the future. Of these, the most significant program is on Motor and Home portfolios. We expect the benefits from this to start to emerge from next year. And in a similar way, our commercial broker business NIG is already starting to benefit from a string of platform improvements to strengthen its pricing and underwriting capabilities. Some of our other investments have the longer-term more in mind to enable us to access and serve our customers in new ways with new products.

Direct Lines of business for instance is now well established and has the potential to grow profits meaningfully over the medium-term. Travel, which focuses on partnerships today, offers promising opportunities in the future, particularly in providing another touch points with our customers.

And Darwin, our new approach for price comparison customers is already giving us insights that could offer another growth opportunity. Within the next couple of years, we expect to have implemented changes on nearly all our major insurance platforms, to have reshaped the way we work as an organization and to be well on the way with our IT infrastructure. And all of this is designed to deliver benefits through reduced costs faster and more accurate pricing, greater product flexibility, and greater pace of change.

So let's take a look, at some of the individual platforms. On slide 7, we show the very high-level delivery program for our major, motor and home platform. Through this program, we're upgrading nearly all of the applications that are used in the customer journey, including policy administration, billing, pricing deployment, we're upgrading the claims system and we're shifting most of the data onto the clouds to provide a more flexible and resilient data storage, so in short we're doing a lot. As a result of this, the customer will benefit from things such as online documentation and seamless quote journeys. More product choice and flexibility, more accurate pricing, more targeted marketing through faster pricing capabilities and new more granular data. And we're progressing well on this having launched privilege motor this half to both direct and on our first price comparison sites with the others following shortly.

A phased roll out is designed to enable us to do this in a fast, safe and controlled way whilst minimizing the disruptions to the rest of the business. Once we have delivered the key functionality across motor and home, we'll then have the flexibility to expand the product range. We'll have the ability to start to break products down into smaller components and to build more personalized products, delivering them more quickly and more cheaply. Overall, the new platform is giving us all a real sense of excitement and optimism for the future.

Now onto Darwin on slide 8. From the outset here, our ambition was to combine the benefits of our scales and data with a new approach to pricing, designed specifically for price comparisons and to increase our pace of learning. We wanted to use the latest digital and data techniques to create a pricing model that doesn't overlap with the group's existing model and we wanted to do it with a cost base that would give it a competitive advantage.

So we pulled together a team of data scientists and data engineers, gave them the group date and provided them with the support and scale of our claims team. Now we're managing the roll out very carefully by placing limits on numbers. So that we can test and learn, and I'm pleased with the progress.

The roll out will take some time and as it progresses, we'll see the degree of overlap with the main book and this will give us a better sense of the scale of the growth opportunity. But the group is already benefiting as it learns from the Darwin's team working methods. And the main book is benefiting from Darwin's detailed information in areas such as application fraud and risk modeling for customers with claims and convictions.

Now on slide 9. I'd like to tell you about travel and our new partnership with Starling Bank, starting on the left with travel we have totally transformed our travel platform. Building a system that is fully optimized for tablets and mobile, provides online medical screening and self-service upgrades and is fully automated for certain claims. Delivering this has helped secure the renewal of both our RBS and Nationwide contracts. But it also provides interesting options in the future. It provides potential another touch point with customers and lends itself well to emerging distribution platforms.

Moving to the right hand side of the page and our partnership with Starling Bank. We've mentioned our API capabilities in the past, when we discussed our home proposition with RBS. I'm delighted that we have enabled --we've been--I'm delighted that our strength here have enabled us to combine our Churchill brand and our partnership strengths to be the first major insurer on Starling's marketplace. It's small volume today, but we're already learning what we can do in this environment and there is potential to access valuable data that will improve the customer experience here. So as you saw earlier, we are transforming our largest business line with the aim of -- to grow our profitability over the near and medium-term. But also you can see, that we're investing in the long-term, and we can meet the evolving needs of customers.

On slide 10, we show you the evidence that we can successfully grow businesses. Some 12 years ago, we launched direct line for business and today, we have half a million customers and over GBP 100 million of premium at good and steady margins. But you know, over the past few years, we've invested in building the next generation systems to give small business owners the confidence to buy their insurance direct. Those of you who came to the Bristol office last year, heard a little about the way we work in DL4B which is a really agile working approach and gives the team pace and real customer focus.

So they continue to seek to optimize the current product suite and customer journeys. And I am always excited by that innovation and their energy. They have just made good progress to-date and have further product launches planned in the second half. And Rescue is also undertaking a lot of activity under the surface.

Reengineering the way people work, building a center of Excellence with multi-skilled team, successfully relaunching the Rescue Me' app. Renegotiating supplier contracts and so on, the list is long. And we continue to see great potential in rescue and in the second year of its five-year plan we're confidents with it's progress Look, I hope that I have conveyed there is a real buzz and sense of ambition within this organization. We've made excellent progress, but as you can see, there's a lot of change going on, which I just can't do justice to it here today.

So we'd like to share more with you at our Capital Markets Day on 21st of November. Now we'll be holding this at our largest contact center, which you can see behind us in Doncaster to bring to life for you some of the things that are so special about DLG. As an ExCo we love to go to our contact centers so the extraordinary energy of our people there and to see team in action their commitments for our customers.

But we'll also provide you with some insights on the capabilities our new technologies bring and how we're using them to transform our business and bring competitive advantages. I'm really proud that we've been able to deliver so much change while delivering good financial results this half.

And with that, over to Neil to do the financials.

Neil Manser {BIO 5571223 <GO>}

Thanks, Penny, and good morning, everyone. Now I was talking with andy there other day, and I realized that I've been in the last 15 years, I've been to over 300 results presentations. I know many of you in the room, have maybe done a few more than that I know. that the presenters always look forward to my constructive feedback. And I very much look forward to yours.

So let's start on slide 13 in the pack. For me the summary today is good results on track to meet both our 2019 targets and our medium-term combined ratio targets. Before I go through the results in detail, I'd like to talk to two key themes that these results highlight about our model.

Our discipline and our diversification. Discipline shows through in both the trading results and our cost story. In motor and home we priced for claims inflation in what were highly competitive markets. And our operating expenses are at the lowest level since the first half of 2015.

The value of our diversification is also showing through with over GBP100 million of profits from outside of the motor business. As well as continued strong premium growth in Green Flag and Direct Line of business. These factors have enabled us to report another good operating profit, which in turn has helped us grow the dividend again, all supported by a very strong capital base. So all in all, a good first half financial performance.

Now for the details starting on slide 14. Operating profit was GBP 274 million in the first half lower than last year due to few significant items most of which we highlight on the table at the bottom right of the page. On the positive side, weather has been very benign compared to last year, when we suffered the Beast from the East. But there are a few items going the other way.

Most important, is that you'll recall we had exceptional motor performance in the first half of 2018, which benefited from price increases as a result of moving to an Ogden discount rate of minus 0.75% whilst still benefiting from the pre-Ogden reinsurance cost. Last year, we also had a gain on the sale of our Bristol office and high investment gains. This year, we've had more -- we've had lower gains a more normal motor market and the confirmation of the new Ogden discount rate, which has cost us GBP17 million.

Now whilst profit is down in the first half 2019, a combined ratio of 92.5% is a good result. If we normalize out good weather, we get to 94.6% of which about 1 point is ogden related so underlying 93% to 95% is well within our range of 93% to 95%. As Penny mentioned, return on tangible equity is close to 21% despite a more conservative solvency position than usual and well ahead of our target of 15%.

Moving on to in-force policies on slide 15. Overall, we saw flat in-force policies in the first half and premiums down 2.2% as our diversified business model helped offset some of the pressure we saw in motor. Starting with our direct own brands in-force policies. Motor, which represents just over half of our direct own brand portfolio was down 1% since the start of the year, with most of this reduction coming through in the second quarter.

This reflects our discipline and I'll talk more about pricing later on.

Home policies, were broadly flat in a highly competitive new business market. In terms of channel performance for motor and home, we had some good growth in PCW particularly through Churchill, but with market shopping levels generally down, we saw fewer opportunities in direct.

Green Flag continue to grow, with policy count up 5.9% year-to-date again achieving double-digit growth year-on-year. The team here has built great momentum, and is looking to pass one million customers by the end of the year. lower due to package

Moving to commercial, Direct Line for business grew to over half a million policies with volumes on the SME platform doubling in the period. The table on the right shows what happens outside of direct own brands. Policy count fell in motor and home partners, which is due to partner exits we've talked about before. Rescue partners and other personal lines were primarily lower due to package bank account volumes a trend we've seen over a number of years. And in NIG and other, the team is focused on improving margins, particularly motor lines and this has led to lower volumes.

Now, before I move on, I'd like to focus a minute on the long-term trends of our direct own brands. Because it's evidence of our ability to grow in the most valuable part of our portfolio. We've grown in motor when the time was right, and our diversifications has balanced that when we have needed to hold discipline. You can see, that since 2015, we've grown our motor own brand policies by 13% and delivered 16% growth across the rest of our own brand portfolio. This gives me the confidence in our ability to grow over time.

Now to the segmental results starting with motor on slide 16. Motor delivered a good result and continued to trade to target loss ratios in a highly competitive market. Overall, operating profit of GBP154 million with GBP86 million lower than prior year primarily due to the reversal of last year's exceptional underwriting performance. You can see this in the current year loss ratio, which increased by 4.9 percentage points to 83.4% and returned to a more normal level. Prior year releases have reduced consistent with our purchase of more reinsurance in recent years.

This reduction also reflects the increasing reserves from the move to minus 0.25% Ogden discount rates. You will recall, we are reserving at 0% at year-end. Turning to top-line, headline GWP is down 4.7%, with only a modest reduction in IFP. Underlying this is a reduction in risk mix due to several pricing updates at the end of last year and improvements in addressing application fraud. On top of that, our free legal expenses proposition on Churchill is performing well in the PCW channel. Collectively, these actions reduced average premium, but have enabled us to find pockets of value, where we were able to maintain our margins.

In terms of claims trends, underlying inflation is still at the top end of our 3% to 5% long-term range. Within that, third party property damage remains high, but has stabilized after a poor first quarter. Inflation here was in part due to pressure in the motor repair industry from high accident frequency in 2018, but the start of 2019 has seen that pressure ease. And to remind you, we believe our auto repair centers continue to give us competitive advantage on damage claims.

On slide 17 we show the latest ABI premium data. We said, at the full year results in March that we have priced-- that while pricing had stabilized in the second half of 2018, we were disappointed that the market as a whole was not pricing for claims inflation. Since then, we've seen one or two positive data points, but to-date this has not turned in to sustained market pricing improvements. As we stand here today, there are two market trends that insurers will need to make judgments on. First, the upcoming whuplash reforms and second, the new Ogden rate, which was worse than the 0% to 1% range most in the market we're expecting.

While we can't predict how the market will go from here, our approach is unchanged. We remain focused on maintaining our pricing discipline and we will continue to prioritize target loss ratios over volume. And while we can't be immune from market pricing pressures, we remain committed to investing in the business with the aim of delivering benefits on cost and underwriting that mean we can to some extent carve our path.

Let's look at home on page 18. The first thing, I'm sure you'll notice is the big jump in profit year-on-year, whilst benign weather is the main cause of this, the team has also done a great job improving the normalized combined ratio by around two points compared to last year. This has been achieved by determined focus on pricing, underwriting and claims actions particularly in relation to escape of water. Whilst we still expect long-term claims inflation around the 3% to 5% range, our latest experience has been better than this.

Moving to the market, we believe that most are broadly rating for claims inflation, but there remains a small number of players that we see come in and out the market with more aggressive pricing tactics.

Against this backdrop, we've traded in a disciplined way around PCW's with targeted growth where we see value and pulling back where we don't. And overall, we've achieved rate increases of 1.5% and a continued reduction in the risk mix. It's also worth noting, the commission ratio which continue to fall and is starting to find the appropriate level following the exit of two partnerships in 2017. So in summary, GBP71 million of profit supported by strong underlying performance.

Now slide 19. As you can see, Commercial and Rescue and other personal lines between them contributed GBP49 million around 20% of group profits. Beginning with commercial. The segment continues to see growth in top line with Direct Line for business up 8% partially offset by a flatter picture NIG as it continued to focus on margin improvement. Rate carry in the first six months for renewed business was around 6% with the strongest improvement in motor lines.

Importantly, the current year attritional loss ratio improved by one points due to the margin focus and price initiatives at NIG and a greater weighting towards direct line for business where loss ratios are lower. Overall, it delivered a GBP32 million operating profit. Rescue and other personal lines, profit increased by a little over GBP2 million to GBP18 million. This result was largely driven by Rescue, which saw a 10% improvement in operating profit to GBP21 million. There were two key drivers of this growth. First, the earn through of higher Green Flag direct premiums from the previous year, which improved the risk mix away from partners. And second, better claims frequency following last year's adverse weather.

As I said earlier, Green Flag is beginning to show some real momentum and is well positioned to win in the rescue market.

So turning our attention to costs on slide 20. As you are aware and as Penny mentioned, we are not satisfied with our current cost profile. And Over time, we're looking to sustainably reduce this and have over 90 initiatives in train at the moment. These cut across the whole expense base and include investments we're making in the transformation program, many of which Penny has already talked through.

The current core areas of focus, include self-service and digitization, process improvement and automation, as well as more traditional forms of cost-cutting in terms of procurement activity and managing cost leakage. And you can see the results of some of these actions coming through in the first half with operating expenses down GBP16 million to the lowest level since the first half of 2015.

Of particular note is the reduction in marketing where we have again improved effectiveness. The expense ratio was fairly stable as these lower costs were offset by lower earned premium. Given the phasing of levies including flood Re in the first half, we are confident of delivering operating expenses below GBP700 million in 2019.

The next slide 21, pulls together the underwriting ratios in one place. So I've already talked to the headline combined ratio of 92.5% and the 93.5% to underlying for Ogden and weather, is well within our target of 93% to 95%. So I'll move on to the main purpose of this chart. This is to show that we've delivered consistently strong combined ratios over time. And again, demonstrates the DLG model and the benefits of a disciplined approach to underwriting and a diversified portfolio.

Moving on to the investment result on slide 22. Lower assets under management and lower gains led to a GBP20 million reduction in the headline results. The net investment income yield was up a little, at 2.1% due to lower hedging costs and was slightly ahead of the 2% expectation. We're still confident of achieving this expectation for the full year. With reinvestment yields down year-to-date it's difficult to improve to 2% from here in the current environment.

As expected, gains were much lower in the first half compared to the first half last year. We recognized net gains of GBP12 million as we consolidated mandates with a view to reducing investment fees. As you can see, on the table on the right, last year's gains were supported by fair value adjustments on our property portfolio, which did not repeat this year. This is expected, given conditions in part of the U.K.'s commercial property market. To remind you, our portfolio is prime and has a relatively low exposure to retail.

On a more positive note, the available for sale reserve has improved from an unrealized loss of GBP 37 million at the year-end to a gain of GBP 27 million at the end of the half year as credit spreads narrows and interest rates fell. Our guidance for significantly lower gains in 2019 is unchanged and I'm not expecting any further gains for the rest of this year.

Now to the group's capital generation on slide 23. In the first half, we saw a small reduction in SCR which reflects our reduced risk exposure. As we said before, we expect this to continue given the greater use of reinsurance than in the past. Our capital has also been supplemented with positive mark-to-market from narrowing credit spreads since year end. Moving across, capital generation is broadly consistent with IFRS profit, so no surprises there. And penultimately, capital expenditure, which supports the group's transformation program was GBP90 million around half of the full year guidance of GBP175 million. Finally, we grew the interim dividend by 2.9% to 7.2 pence per share. And we end the half with strong capital surplus of around GBP1 billion up around GBP120 million in the full year.

Onto solvency ratio on slide 24. After the interim dividend it's a very strong 180% and is at the top end of our risk appetite range. You'll recall at the year-end, we held back some capital to form a buffer against heightened political and economic uncertainty. This buffer has increased in the first half helped in part by the tightening of credit spreads. We said at the full year, we keep this position under review and since then environmental factors haven't improved. Therefore, we are not returning any additional capital today, and this leaves us at the prudent end of our risk appetite range.

Under normal conditions, as you know we still expect to operate at a ratio around the middle of the risk appetite range. In the future, we will also consider the most appropriate mechanism for returning any surplus capital and may utilize share buyback if conditions are appropriate.

Before I hand back to Penny, I'd like to close with the outlook and targets on slide 25. We're confident that we can again deliver a combined ratio within the 93% to 95% target normalized for weather. We've made good progress on costs and are on track to reduce operating expenses to below GBP 700 million this year. Investments are also on track to generate 2% net investment yield with no further expectation of gains in the second half. And as you've heard from penny we're making great progress with our transformation agenda, which is underpinned by the GBP 175 million of capital expenditure in 2019.

Thank you, and back to Penny to wrap up.

Penny James {BIO 15157212 <GO>}

Thank you. Neil. So what are the Key messages I'd like you to take away today? well first, whatever the market conditions, we will remain disciplined and long-term focused. This is a key ingredient in our objectives of sustainable attractive returns and the results today in highly competitive market are a testament to that.

Second, we're a business with different sources of earnings through different products, different distribution channels, via different brands and propositions and this positions us well to steady earnings and dividends for our shareholders and to meet customers evolving needs.

Third, we're on track with our operational change agenda and are well down the IT transformation part albeit with plenty still to do. Across the group we're moving towards newer faster ways and more flexible ways of working to realize the benefits from the new technology. And then to unlock the potential of our people and leverage the group's existing strengths.

Also fourth, this management team is excited by our plans to deliver a material change in the capability and efficiency of this group. And we look forward to telling you more about that on the 21st of November in Doncaster.

And with that, I'll hand over to you.

Operator

Thank you, Penny. Thank you, Neil. We'll go to questions in the room first and I'll start on the right hand side.

Questions And Answers

Operator

(Question And Answer)

Thank you, Penny. Thank you, Neil. With questions in the room first and I'll start on the right hand side is (Multiple Speakers) Ask your question.

So, with Andrew.

Q - Analyst

Good morning, all. (Inaudible) Just a three questions. (Inaudible)

If interest rates remain here can you sustain a 2% investment income yield into 2020 and 2021. Secondly, with your pricing up 2% and claims, avarage claims 5% long if it stays like this? And can you maintain your confidence in the 93% to 95% combined ratio?

And finally, on the special dividend, I understand political uncertainty, but in and of itself it has no impact on you. The impact is if credit spreads blow-out. Credit spreads have tightened, so why hadn't special dividend been paid which is owed to the market? Last and the final. And under what conditions given Brexit is deeply uncertain, will you ever start to move on that.

A - Penny James {BIO 15157212 <GO>}

(Inaudible) investment income.

Q - Analyst

So the first investment income The investment yields are down year-to-date, I agree.

A - Unidentified Speaker

Maturity.

Q - Analyst

If we look at our maturity profile performance through the next 18 months. We should be able to maintain the 2% based on current yields, obviously, if yield move from here that will change.

A - Penny James {BIO 15157212 <GO>}

Look --I mean we --our approach is to price to a target loss ratio. So, we will price into the 93% to 95%, and the thing that gives as it has to give is the top line, rather than that. So, we will keep focus and keep pushing towards that 93% to 95% and are confident of doing that, it's why were reiterate those targets.

On dividends, so do you want to.

Q - Analyst

(Inaudible)

A - Penny James {BIO 15157212 <GO>}

(Inaudible)

Q - Analyst

Changed from, the policy. The policy is still the same normal conditions operating in the middle of the range. You know that we tend to hold more capital in the middle of the year, because the just generally look at capital, at the year-end, only. This year we did say, we'd look at the half year. But as I said, I said a minute ago, we don't see the factors changing and we're still within the range, I think it's not a bad thing to be conservative at the moment.

Inherently, we are a fairly conservative company. But don't read too much into the in that conservative, but we also have a very strong track record of returning capital when it's appropriate. So, I mean, I'd definitely say that we've returned I think since IPO. So, the credentials of the company is the same and the track record.

I think you should be comfortable with it when it's appropriate we'll return the capital.

A - Penny James {BIO 15157212 <GO>}

Yeah, look I this board all committed on returning capital to shareholders. I think, that what gives us pause around this -- into this we all do a sheet amount of work around capital models creating 100 and 200 scenarios building them out, X variables. When you're faced into binary dislocation events. You just need to be prepared for that. And none of us know what credit spreads will do in those environments and we do know that we're sensitive to them, and that's it. --So that means that we are really protecting. But we will absolutely keep this under review. We don't see it as a permanent state of affairs.

We do believe that the middle of the range is the right place to be. And our shareholders will benefit from that.

Q - Analyst

Thank you. (Inaudible)

Thanks. (Inaudible) Two questions as well from me. So, first just on Motor claims inflation. You specifically highlighted third-party repair cost inflation and your connectors have also actually gone third-party. Why is it third-party total repair costs? Could there really be issue here? You mentioned obviously, this year about --oh sorry the advantage you have in own repair work, but I'm wondering if it's more than that, because there's actually some sort of structural driver of a different third-party and sort of -- and honestly, all the accident plans.

The second is on capital generation, So neil you specifically said capital generation is roughly in line with our gross profit. you might have seeing that number that it might be lower because PYD is an important contributor. And PYD under IFRS is not necessarily the same as PYD under capital. Does this imply that actually capital. generation should improve versus IFRS. As your mix moves away from PYD to their expense ratio.

And then the final question is a bit more broad about the motor environment. We're also looking out for the green shoots as it were I think from an investor perspective one of the challenges is it's difficult to know, or to judge, what could cause that without having some good explanation for what if I don't sort of a deterioration or sort of an intensification conclusion? What's your best explanation for why the market has been in terms of rates? Thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. Thanks. TPPD, it's been up and down a little, I think we have good evidence to suggest that our internal --the repair to give us a cost advantage. I think, you partly saw that in the back end of last year, where we kind of did damage effect to the market.

We called out earlier this year in Q1 that we were seeing the third party damage costs going up significantly. And they have definitely stabilized in the second quarter, what we we're sure of at Q1, because it takes a little bit of time what the shape is when severity goes up it, can be because of an underlying fluctuation or it can be because frequency is putting pressure on credit high cost supply. Or whatever so severity can go up as a result of frequency moving.

And I think, there clearly is underlying high damage cost inflation across the board the construction effects. But I think what we've seen in Q1, was a frequency driven increase in severity costs, if that makes sense. And that's what we think is going on that's why we think it's level stabilized in Q2. And it remains the case that we believe we get better value out of our than we get out of third parties, for whatever reason.

So, I think that's the most you want to be capitalized.

Q - Analyst

So, I don't think there's need anything particularly in there of note. Obviously, the other one. Adjusted for I think, was in reserving I mean obviously, one discounts that not back and create some slight different, but I don't think there's.

Anything in the first half, we may have classified but anything in there to call out, [ph.] looking forward. There's no reason, why as PYD reduces you'd expect disconnect. It's all coming out of the actual best estimates, which underpins both the numbers.

A - Penny James {BIO 15157212 <GO>}

And why is the look I don't speculate on why other people do? What they do clearly, we are pricing and we're getting some clawback in the risk mix, but the one thing I will say is that and I called this before there's been so many external stimulative to the market through but on its way. But actually, even two people rationally looking at the situation together might make a massive different course through that.

So, I still don't necessarily; see it as a long-term structural problem. I think, we'll know better once comes in and how in of that response. But you have to ask my competitors why they do what they do.

Q - Kamran Hossain {BIO 17666412 <GO>}

Questions. The first one is on, you talked about the transformation technology growth from the PCW in the longer-term I guess, do you expect your market share to change markedly from here?

The second question is on Ogden would set up minus 0.75%. No one actually was paid at minus 0.75. So the implied impact is not as bad as the --I guess the -- just putting the map through in it do you expect that to be the case this time or any thoughts about those very, very, very early?

And the third question just coming back to Andrews's comments around solvency ratio under Brexit is 180% the new 160%.

A - Penny James {BIO 15157212 <GO>}

Sure. The last one is no. So no transformation -- look what we are trying to do is create competitive advantage. We've certainly been at a disadvantage due to. And in particular in particular price comparison because of some of the features I drew out earlier. So, our job here is to give us the competitive advantage. Whether that gets deployed as growth or loss ratio benefits. Some of it will come through expenses probably anyway.

But will determine a little bit as we go depending on what the market conditions are at the time, but let's get ourselves in a position where we're on the front but we've got advantage these others haven't got and so that will be --then we can make that choice.

Ogden, so I think the market -- well we the know market is expecting somewhere between north of 1%. It would likely be between north of 1%. And most equal I think move their reserving into that range last year, we certainly did in that. And I think, that's good evidence in the way pricing has moved over the last few years to show that most people were pricing for somewhere in that north of 1% exactly.

So, minus 0.25% was the fundamental -- most important thing is we all have certainty. So, it's good for consumers that we have certainty and it's good for businesses that we have certainty. So, that's the main thing we don't ditch the price. We're outside the original range, we've taken a small hit here today. And I suspect, pricing will adjust through the market I think anything I said they've left the prospect of the compensation on a dual rate out there.

I actually think dual a June rate is a pretty sensible approach given the nature of the claim profiles and maybe the best in the long run. So we'll be supportive of that happening, but it's more about the fact that the right answer than it's about a particular financial effect on us I think.

So Ogden -- and then we touch on solvency. Look there is no change in the Philosophy the risk appetite. We remain as absolutely committed to shareholders, that we have been. We simply try to make sure we navigate with potential implication.

Q - Analyst

Thank you. Go to (Inaudible)

Thanks. (Inaudible) This is in three questions. I just asked about the dual pricing the regulation from FCA. One do you have data? And is there anything new which you are having ? And secondly, what's the difference in profitability for you guys onto new business versus renewal? On the Motor and home business number one.

Second, just staying with regulation whiplash reform expected next year. Numbers around benefits have changed bigger number now we're down on those and what is your view as in what could be the potential benefit for you?

And lastly in terms of results our core target remains at 93%-95%. It has been benefiting from prior releases which remains as decent sized number. How should we think of last year in absolute numbers?

A - Penny James {BIO 15157212 <GO>}

I think there's nothing fundamental that has changed since last clearly there has been a lot of attention may have come out with new statements. The FDA has come out with a --sort of an update on the consultation. But I think none of that is a sort of fundamental shift a couple of. And what do we do? Let's start with what we do and then on how we view the kind of industry position?

I think what do we do? We do a number of things across our book, business customers and for renewal customers. Because -- probably because we think insurance isn't just about price, it's about value as well. So whenever we give one of our propositions that we always talk to you about whether it's a seven day turnaround or we do that to everybody in the book, because we think it's the right thing to do customers for that.

The second thing we do is we review we have our own internal pricing practices and standards and within that we review every policyholder renewal at five year point to make sure we're comfortable that appropriate place. And that we results in some cases in discounts in some cases in some cases there's no action required. So, --but there is a clear review point. And we were half to last year premium disclosure because some of this is about transparency for customers as well as the absolute pricing.

And in our technology developments we're doing a lot again to make policy journeys easier to get more options on the way. And to make documentation much, much clearer and simpler and there are lots and lots of things we are doing internally to try and do our bit to try and resolve the situation. But the reality is we can't tackle this issue on our own we have to do it as an industry, because of the way the competition works and the way that new business pricing is heavily discounted and mostly this is pricing isn't economically viable as permanent price.

So, there is a structural point in this market. And so that's why we support the FDA doing what they do, we work extensively with the APB and in the development of their pricing principle, we're just trying to create the same work to make it move insurers down the path to make this even --to make this a better situation and improve previous issue.

So, how do we feel about it? We think, yes, I'm sure the FDA will make changes, it's not an easy issue for them because it's the competition in the market that is creating the particular issue that is of concern here. And so, anything that they do is a correct level playing field we're supportive of. And actually, when I look at us, with a multi-brand, multi-channel distribution a long history of writing successfully in the home market.

I feel confident, that we'll be able to adjust and whatever that marketplace (Inaudible)

Q - Analyst

(Inaudible)

A - Penny James {BIO 15157212 <GO>}

So, the firstly, whiplash benefits the original business case I think was GBP 35. I think, generally we think that we suspect that a that was done some time ago the markets moved on a real skeptical, that actually the benefits will be that high. Whatever the benefits are customers who've made that promise on the path. I think in timing terms it feels as though the industry is pretty ready The MIB sounds as though they're pretty ready. There are still some bits that needs to be sorted out about how the legalities at some are operationalized in some areas and that required MoJ time to get that done.

So, depending on the level of focus or distraction in the MoJ, I suspect is what will drive whether or not. We haven't given a specific number; we don't of competition give out specific components but original estimate, I suspect. Thanks.

A - Neil Manser {BIO 5571223 <GO>}

Reserving. So after shape of reserving for the first half. So, if you look at where reserves came. about third, of them were from 2018. The third from the three years prior to that seeing most press release from the more recent years important. Within that have now gained maturity.

How do we offset what we said, we'll be reducing probably reserve amount book smaller which is expenses underwriting improvements and ultimately some growth input. Those are the three key drivers to offset it.

A - Unidentified Speaker

(Inaudible)

A - Neil Manser {BIO 5571223 <GO>}

So, reserves, the reserving philosophy is pretty similar. Clearly the book is smaller than it was so there's a quantum effect. So different positive impacted.

Q - Sami Taipalus {BIO 17452234 <GO>}

Santos from Goldman Sachs. We're all obviously, looking forward to the trip to in November.

A - Penny James {BIO 15157212 <GO>}

As you should, yes.

Q - Sami Taipalus {BIO 17452234 <GO>}

Is it possible to say, anything about your strategy to relating to partnerships already at this point maybe. It's, where you've been losing a bit of volume recently. What's the level of commitment here? What kind of things are you looking for?

And then the second question is, you gave a roadmap for implementation or introduction of it systems. Can you talk a little bit about switching off legacy IT systems as well? They're getting quite important to cost saving.

And then finally, just on the buying back. You mentioned that there's a potential, conditions for buying back. It's Just a question of share.

A - Penny James {BIO 15157212 <GO>}

The prospects on some cost, very different king's cross direct trains and it'll be well worth the visit. Because we all love it. Partnership, is I think what you really want to know. The -- we gain partnerships when the economics arise. So, we put some kind of partners' value from the service quality and the skills that we bring when it's pure commoditized traditionally we're probably less likely to be your plan. So, we remain interested in the right kind of partnerships the point I was trying to make in the presentation is really that as time moves on, I think the nature of partnership arrangements is shifting. So it becomes more about making it easier for customers using their customer their data with to make offers more payment for them.

And we think it's particularly interesting to me about is one of the first using our brand in someone else's marketplace, which you can see as being a development area for the future. And that's really interesting, so I think, we are still in partnership we build up for the right kinds of partnerships, we've just renewed two travel partnerships it has to be on the right economics. And we think that whole world will evolve and we'd like to be a part of it.

In terms of IT and legacy. So, we have -- I think I mentioned IT infrastructure. So, we've outsourced the running of a lot of our IT infrastructure to a partner, who's also the partner who's leading with development. So that we run those two things in tandem. And in doing that we've contracted on a basis that gives us more the underlying costs. So, you're right there is a process, but that process is matched -- it runs over the course of seven years depending what it is, but it seeks to move from the benefits and see get a at the end.

A - Neil Manser {BIO 5571223 <GO>}

Share buyback. So this is response to customer shareholders thinking about how we return capital? We're not going to set up a real explicit framework, but to give you some idea I think the biggest indicator of whether a buyback is more preferable to point of yield we're trading out on a regular yield. So, if the regular yield is very high it adding to the special dividend it might be more appropriate to buy back shares. But it is an open item on the agenda.

Q - Lain Pearce

We've had some comments around. What are you seeing there And what proportion of your claims are in Motor? And something on CapEx over the medium-term? What was the split between different businesses? You build and take new system there with of rewiring etc. And then just going back to the point on capital, 180%, 160%. Still the uncertainty of full year. Should we think that you're paying down to 180% instead of the 10-point, the 170 last year?

A - Penny James {BIO 15157212 <GO>}

That is a pretty small part of the overall claims the big claims components are probably injury and damage. So, it is running hot at the moment. So, it is high, but not a dramatic effect. I think in terms of the overall outweighed by movement on damage. Overall CapEx I'll leave to Neil, and so far on capital there's been no resetting in this process. We haven't reset our expectations as an endpoint. We haven't also talked to assess what those will be like at year end. So, we'll do that at once.

A - Neil Manser {BIO 5571223 <GO>}

So, just have a debt is about 5% of cost. So It's not a material amounts for us. In terms of capital it's been said that 180% is not the new 160%. I think that it's hard to speculate what conditions we might be in at year end as I sit here today. I think, you know what normally looks like in that every point in until the last, but last year end clear.

I can't say whether actively messaging here in February or March time the condition will be 160% condition or 130% condition or a different number. I think, we'll assess the conditions when we're at the point in time when we need to make a decision. But I think, all we want to reiterate is the policy is very much fun changed.

A - Penny James {BIO 15157212 <GO>}

CapEx. A lot of the CapEx is across the portfolio, so the big home and Motor platform will be used ultimately for rescue as well. So there are some going on in rescue, but not that dramatic in the scale of things. So it will be the home and motor portfolios that take -- the vast weight is unsupported behind that so tech transformations and moving all of the infrastructures everything.

Q - Lain Pearce

Right, but what we're hearing from others is.

A - Neil Manser {BIO 5571223 <GO>}

20%,25% so I think it's about inflation.

Q - Analyst

It's okay. I guess the ABI I think they said that's about 23% or something maybe they're saying 25%. Is it fair just

A - Penny James {BIO 15157212 <GO>}

I wouldn't overread it, because I think you're seeing movement in other parts of the book. So, one small part of can I say factors in the claims and they seems to move in different ways all the time.

A - Unidentified Speaker

(Inaudible)

Q - Edward Morris {BIO 16274236 <GO>}

Thanks. question just trying to understand the expected ultimate profitability in the business that you brought to date. Obviously, you've had changes in pricing. In term of Inflation that seems to be quite large, I would say currently. Can you just give us an indication of whether the expected is outcome is within the 93% to 95% and how that's evolved over the last few years. That would be really helpful.

The second is on; you mentioned if conditions remain competitive that volume is likely to be the thing that starts to gain from here. Do you see any risk that premiums might make it more difficult to reduce the expense ratio in ratio terms?

And then thirdly, assets under management, obviously, have been declining as results come down. How far away are we from the point? Where you're actually stable?

A - Penny James {BIO 15157212 <GO>}

We target loss ratio to price into the 93% to 95% on an ultimate basis. Because that's how we kind of set it up. So that -- I think to give you the sense for that one. Expense ratio, so look, if we work hard to alleviate by affecting on different components propositions those sorts of things to alleviate the volume impact. But you're right ultimately if we take volume impact we will expenses. So, it creates an expense pressure into the extent that we take outcome. So -- so we are super focused on expenses would have a similar to be had on that asset.

A - Neil Manser {BIO 5571223 <GO>}

But also the reinsurance program as well. Means lower AUM at a time. And I think, we're pretty much there. I think on the AUM at the time, and maybe there's more to go and then I think it's much more in the top line so the growth potentially the future growth in the business will drive much more with the AUMs.

Q - Lain Pearce

Questions from me, please. Firstly, it's about your auto repair network because it's in competitive advantage on insulating you from some of the claims inflation on the market. Can you just remind us, the number of auto repairs you have and what sort of proportion of your own damage claims actually go through your own network.

And then on the IT spend, it sounds like quite a lot of the initiatives focus on new business competitiveness. So do you see the main benefit of this IT spend coming through in increasing growth? Or is it more inefficiency sort of element and the cost savings that these programs could generate and main benefit coming through.

A - Neil Manser {BIO 5571223 <GO>}

So, we've got 20 sites at the moment and I think it's just over half of our repairs go through those they are in repairs they are in repairs there?

A - Penny James {BIO 15157212 <GO>}

100,000 a year. And look IT spend should benefit renewals and new business, so it's not designed to -- I mean one way or the other. So, everyone, all customers should benefit from that and the business reflect more of that should benefit. It's a combination, so there are clearly efficiencies we do lots of manual work around today that we don't have to do in the new world. You've had examples of automated claims that increases efficiency, There are lots and lots of efficiency. Examples, The biggest benefits I will come in terms of -- what I call competitive advantage in the market place. Whether we take those in terms of the kind of loss ratio bottom line all use those I think just depends on the dynamics at the time, when they're.

Q - Andrew Broadfield {BIO 7273415 <GO>}

On the impact. I was wondering, if you have any early estimates of how that may affect your reinsurance spend?

A - Penny James {BIO 15157212 <GO>}

Short answer is, no I mean, there are lots of things that go into the reinsurance assessment part, so we don't know exactly what people are modeling in their reinsurance model. So it's too early to tell, I think.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Let's come back to go to the phones after Ed and see if there are any other questions in the room.

Q - Edward Morris {BIO 16274236 <GO>}

And thank you, everyone, for your questions. We've seen some others in the market introduced new product structures, so you have fixed, for year example, with new price guarantee. Is it something that you've done a lot of work on and do you think ultimately the market will go in that direction?

A - Penny James {BIO 15157212 <GO>}

We -- when we think about whether they've done that because of the royalty pricing questions or whether they've done that we don't know But in terms of the pricing questions, we look at costs, and we've done a lot of work across the work. We haven't focused yet, on new propositions partly because we think the big issues about renewal customers or our new business customers. And also because we do have three-year sort of fixed rate products with one of our partners with RBS and that's proved to work very effectively through where you're talking to people in a customer journey. It works on the price compared to context. And then it influences the commoditized end of the market, because to be economic the new business prices have to be higher effectively.

So, we're comfortable with the approach and we kind of -- we just wait and see how successful some of those others at the moment, our assets are focusing elsewhere on the issue. But it's not something we rule out, we go elsewhere if the market wants to support those kinds of products we'll have to like.

A - Unidentified Speaker

Quick question from (Inaudible) phone's.

Q - Analyst

Does that mean you're also pretty much now on the SCR decline?

A - Neil Manser {BIO 5571223 <GO>}

I think we said that is in reinsurance side of the business. So I think in terms of, that's probably a bit more, but I mean if the material change I think is --we'd say, has changed in relation to that to the risk profile part of the business.

Operator

We go to the line for any questions on the telephone line.

Okay. So, we have our first question from Greg Patterson from KBW. Greg, your line is now open.

Q - Greg Patterson {BIO 17872394 <GO>}

Good morning, everybody. (Inaudible) four questions. First one is, could you give us the new money yield on investment? That's question one. Question two is, the mix impacts, which have been hurting your top-line. I was wondering, when you think those are going to turn or be stabilized. And the third thing that's on U.K. Motor. I was just wondering if you could sort of characterize the difference in year-on-year premium rates at the beginning of the second quarter. And at, the third at the end of the second quarter. So, I'm trying to understand how the year-on-year rate has changed over.

And then finally, in terms of general pricing in the motor markets is it everybody -- only moving slowly in terms of the green shoots? 1 or 2 players you're hoping disruptive in going for share and then are clearly identifiable?

A - Penny James {BIO 15157212 <GO>}

Welcome, Greg. We're missing you. So, I'm going to take the last two I might attempt on the second one and also quite for also quite for the first one -- you? Okay, I'll just give it to Neil. So pricing in the market and Now we're seeing I think the home and the motor markets are slightly different. I think, the most market is sort of seems to be new base. I don't know if any one or two players are standing out particularly the. And we keep seeing kind of little positives and what does that feel like it feels like you've put a chain there or something and it's fixed if it sticks as opposed to you losing. So, we see even now little green shoot and then we're not sure that's the same. So -- and perhaps your point 3, what's that felt like year-on -year it's difficult, because rate was coming off quite fast at this point last year, or it was because of the shape of last year's rates.

But if I -- I think that we were falling in the first quarter and I'd characterize it as flatter in the second quarter. Which I think, the API graph actually probably sort of supports as well. But that would be our sentiment on the shape I think. In the home, I think there are always a couple of players doing sort of coming out the not with we're same players. So the market is pricing sensibly we are pricing sensibly and then you've always got a couple of outliers that are going --but usually small ones that are going for growth. And they're chop and change over time. Fixed for the last year or so.

Mix impact is stabilized I mean the mix impact that we see come through and kind of offset the IPT for because we take the initiative. Be they so we --and to give you an example, we've switched propositions from free rescue to free legal cover on Churchill. That changes the mix, we did it for profitability reasons but it does change the IPT mix. And the risk mix and equally, we've upgraded as we've told you before some of the forward models and sort of application forward models earlier in the year again, it's not harvesting a particular mix. But it has an effect on mix. So, I don't think -- I wouldn't give you a particular direction on mix travel from here equally, I wouldn't say it's going to stay the same because it depends on what are the steps and propositions we put in place in the market at any point in time. I think you had about.

A - Neil Manser {BIO 5571223 <GO>}

I think, Greig, you want the new business, new money yields. So, I've gotten by half the portfolio, they're very different depending on where we're investing. So, weighted average one doesn't really help you. It depends what's insuring, what you're reinvesting into. So I said -- repeat -- reiterated the answer again earlier, which is as we look into 2020, when we reinvest what's coming up for maturity. We think we can still keep.

Q - Greg Patterson {BIO 17872394 <GO>}

I'm saying in the first half, what did you achieve on new money? I appreciate there is a mix effect as we go forward, but what did you achieve on new money in the first half.

A - Neil Manser {BIO 5571223 <GO>}

I don't have it on me, but it's, in effect, moving the numbers.

Q - Greg Patterson {BIO 17872394 <GO>}

And just on the mix point. Are you saying, any can't give you guidance? Could go up or could go down it's a pretty random sector, in the second half?

A - Penny James {BIO 15157212 <GO>}

Yeah, so quite random, but it reflects the propositions and the targeting we do at that point in time. And it will also reflect what we view the competition in the market is today. So if particular --if people are -- if other people are checking particular parts of the market, we may do something different. So, it wouldn't be appropriate for me to tell you that it's going in one particular direction.

Q - Greg Patterson {BIO 17872394 <GO>}

But is it true to say that you have a number of initiatives underway to try and address the mix -- the negative mix impact that we've seen.

A - Penny James {BIO 15157212 <GO>}

Yes, well we have a number of initiatives underway, we don't target mix. Through. We target profitability outcome. We have a number of issues and issues that are underway and they may well affect mix and average premium in doing that.

Q - Greg Patterson {BIO 17872394 <GO>}

Thank you.

A - Unidentified Speaker

(Inaudible)

Operator

Our next question is from Andrew Sinclair from Bank of America. Andrew, your line is now open.

Q - Andrew Sinclair {BIO 3232978 <GO>}

Good morning, everyone. Just a couple on expenses from me. If that's okay. So firstly just on expenses. How much of this year's operating expenses were one-off for IT and other developments? And secondly, just looking at what the run rate must be in H2 to get you under your GBP700 million target for the full year. And particularly how that rolls into 2020? Can you comment to that expense base being lower in absolute terms again in 2020 than it was -- and than it will be in 2019? Thanks.

A - Neil Manser {BIO 5571223 <GO>}

Right. So, the second one. So, yeah, the run rate in the second half will be lower it naturally is because it's phasing. As I think you said, it's probably in the first half, it's about GBP20 million. So, if you look at the first half second half split historically in 2013 there's obviously even bigger gap between first half and second half. But, I think the -- there's nothing in there that should be standing run rate, we -- as we look forward into 2020. I think, we will be targeting lower cost in 2020 than in 2019.

So, yes, in terms of one-offs in there I don't think I'd call anything one-off in there a lot of the transformation costs are capitalized, as you've seen so yes, there's always these additional costs when you're running a lot of transformation programs, but I wouldn't necessarily say it's one off at the moment. So I think we're going to revise some transformations in the next couple of years.

Q - Andrew Sinclair {BIO 3232978 <GO>}

Thanks.

Operator

Any other questions may line [ph]

Our next question is from Johnny from GBI. Johnny just come off of the line. So I'll move on to the next question.

Q - Joanna Parsons {BIO 1558226 <GO>}

Thank you so much. Three question from me. Just in terms of your comment on dual pricing that you've been reviewing the way you've been treating renewal and new customers at the year. End when did you start doing that review has that been a long-term process or was it post the ABI, calling for that to be done? And then the second question is FX? is that going to have much of a negative impact for you do you think on claims cost in terms of repair costs for parts?

I think, so we've had a pricing framework in place for some years including a renewal point of review at five years. So in that sense it's been a long-time thing, we continue to review the lines and the positioning sort of and approaches last we take within that framework. Because what you're trying to do over time is kind of improve the situation and even the situation. So, we've tightened as we go if that makes sense.

But it's not a new process, there are -- but we are we do work with the ABI continuously and keep making improvements at all the industry including ourselves on improving both transparency. And any tail risk over time. So that I think is the dual pricing FX, do you want?

A - Neil Manser {BIO 5571223 <GO>}

I think, Jawana, clearly certain devaluation or reduction in investment and it does increase inflation sometimes, it's cost so I wouldn't overcall the impact of it.

Q - Analyst

Okay. Thank you.

Operator

Next up, we have (Inaudible) from CBS. Johnny, your line is now open.

Q - Analyst

Hi, guys. Can you hear me?

A - Penny James {BIO 15157212 <GO>}

Yeah. Welcome, Johnny.

Q - Analyst

Wonderful. Thank you so much better. Just to go back to the FCA pricing investigation. I mean, how do you have you changed any of your renewal pricing practices? Specifically this year ahead of the interim and full year findings that we're going to get. It's hard to gauge like at the market level is some element for pricing weakness that we're seeing from the ABI is some of that because renewal pricing is coming down a bit, just as people clean things up ahead of the FCA? Any color there would be great. Thank you.

A - Penny James {BIO 15157212 <GO>}

Let me continue to make changes within our pricing not directly a response to any particular communication from the FCA or anyone else. But because we have pricing practices that have been --and principles that we can review, unlike the rest of the ABI members we've introduced the -- and reflected the pricing principles that we have there, and those keep moving through. So, we are constantly making improvements in the book and our numbers will reflect those improvements already. So, I think that's maybe -- I can't comment on, what other people are doing, it still feels competitive out there. So it's not obvious that anything dramatic is happening. But I can't comment on what other people are doing on pricing.

Q - Analyst

Penny, thanks.

Operator

Next up, we have phill Ross from (Inaudible) your line is now open.

Q - Analyst

Good morning, (Inaudible) from media banker. Just one question left from me, please. Which is a bit of a follow up on top line so apologies for that? You talked at the start of the presentation about your future ability to grow sustainably I think they were the words you used. What's your view on when we might start to see sustainable growth in the top line? And what kind of role might partnerships play in that growth. Thank you.

A - Penny James {BIO 15157212 <GO>}

Thanks. I mean, I think we are -- I think I said at home, what we're trying to build is competitive advantage, that then gives us choices and bottom line in growth depending at any point in time on what the market is doing.

So, we believe, that when you combine those with some of the newer initiatives and so on that there is growth potential we absolutely do. As we sit in the market today in the short term, our priority will always be discipline. And so we can see -- watch that dynamic at the moment. So -- and will point to what that growth path will be in the short term. In term of partnerships? are more? Binary. That's the that's sort of -- it's sort of an on-off switch. So, yes, we would be in the partnership arena, yes we think partnerships will be holding their shape over time but I think its early day for evolution. We just renewed two partnerships on travel so, which proves that we're still actively participating in that marketplace.

Q - Analyst

Okay. Thank you.

Operator

We have no further questions on the line?

A - Neil Manser {BIO 5571223 <GO>}

Thank you very much. I think unless there's any urgent question as you can probably running out of time. So, thank you very much.

A - Penny James {BIO 15157212 <GO>}

Just say thank you to everyone for fighting through the tube lines as you and yes the presentation the scripts will be online if anyone have missed the beginning. So, thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.
