Y 2018 Earnings Call

Company Participants

- Paul Geddes, Chief Executive Officer
- Penny James, Chief Financial Officer and CEO-Designate

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Dhruv Gahlaut, Analyst
- Dominic O'Mahony, Analyst
- Edward Morris, Analyst
- Fahad Changazi, Analyst
- Greig Paterson, Analyst
- Iain Pearce, Analyst
- James Shuck, Analyst
- Jonathan Denham, Analyst
- Nick Johnson, Analyst
- Paul De'Ath, Analyst
- Sami Taipalus, Analyst
- Unidentified Participant

Presentation

Paul Geddes {BIO 2474781 <GO>}

Right. Good morning, everybody. Everyone can take a seat. Thank you. Welcome to our 2018 results presentation. Three new things today. Firstly, we're in a new home, this rather splendid home, so thanks to Goldmans for that. Secondly, we are webcasting for the first time, so hi to everybody online. And finally, this is obviously my last prelim and I'm handing over to my successor, Penny James, and it's great to be bowing out on another strong set of results, demonstrating the benefits of our resilient business model in what have been highly competitive markets in 2018.

We made significant operational progress last year, setting us up well for a pivotal year this year in terms of delivery, designed to enable us to continue to grow our current year profits. And we've been disciplined on expenses, and looking ahead, we are determined to deliver significant improvement in efficiency through our business transformation, which Penny will set out later. We also continue to make good progress towards a more efficient capital model to support strong returns, and we are announcing today dividends of GBP0.223, which still leaves us with a strong solvency position, reflecting prudence in these uncertain times.

With that Penny, over to you to take us through the 2018 results.

Penny James {BIO 15157212 <GO>}

Good morning, everyone. It's a real privilege to be taking over the leadership of Direct Line. It's a business with many strengths, its talented people, customer-focused culture, powerful brands, and it's unique in this sector due to its multi-channel and multi-product business.

To begin with, I'll give you an overview of our financial results for 2018. These are strong results in highly competitive markets. As you know, 2017 was a supercharged year with low weather losses and extraordinary pricing conditions due to Ogden. By comparison last year, the weather losses returned to more normal levels and the Ogden effect had worked through. We were pleased to grow own brand premiums by 1.8%, although as you know, this is more than offset by the exit from our Nationwide partnership in Home in 2017, which is now complete.

We delivered GBP602 million of operating profit, a strong result. It was GBP41 million lower than last year due to prior year releases being lower and the lower investment return. The combined ratio of 91.7% is also a strong result, considering the competitive market backdrop. Even adjusted for weather, the core was about 92%. As a result, the RoTE was 21.5%. Weather overall was in line with expectations at GBP75 million, and we've included a table on the bottom right here to highlight the main large movements in the results, which were again largely favorable. You will see we are now assuming an Ogden discount rate of 0%, which resulted in a GBP55 million benefit, in line with our previously disclosed sensitivities.

Turning to Slide 7. The chart on the left here shows the steady growth we've achieved in our direct own brand policies over the past four years. These are the policies that we have most influence over and which have provided the core sustainable value for shareholders. That's why we're delighted that we've achieved consistent year-on-year growth across the portfolio, thus demonstrating the long-term underlying growth potential of the Group. That growth continued last year, up 3.2%.

Motor own brands are just under 4 million policies, grew by 2.7%, and Home was stable at 1.8 million, which is a great result in such a competitive market. This was achieved through strong retention levels with Motor in particular able to keep more of its customers from the good growth we saw in 2017. Our disruptive brands, Green Flag and Direct Line for Business, were up 11% and 7% respectively, continuing their steady and profitable growth.

The table on the right here highlights the movements in the Group's policy count. Offsetting the strong direct own brands growth is a 35% reduction in Motor and Home Partners because of the partner exits. The majority of this impact is now behind us. The partnership team has made good progress with RBS, following new propositions and digital journeys in Home. Policy counts in the remaining part of Rescue reduced due to a partner exit and the removal of a free rescue promotion for our Motor customers. And then the broker channel, NIG, did well to grow its policy count, whilst it continued to take pricing action aimed at improving margins.

Now, let me turn to operating profit on Slide 8 at a category level, which was good in each of our segments, once again demonstrating the benefits of our diversified multi-channel, multi-product business. Motor delivered an excellent performance in 2018, growing profit to GBP415 million. The Home team did a tremendous job, delivering GBP83 million of profit, despite both the weather and the headwinds from the Nationwide exit. Rescue and other personal lines contributed GBP43 million to the Group results, which was broadly flat despite the weather. The Commercial profit of GBP60 million was GBP14 million lower, largely due to weather, and we're pleased with the progress in both DL4B and NIG. So overall, a strong trading result in a highly competitive market environment.

So let's look at the individual segment profits. Starting with Motor, which delivered an excellent performance despite deflationary market. Against this backdrop, we held our discipline and priced ahead of the market to achieve our target loss ratios. Our growth was in part because we took some self-help actions on fraud prevention and made changes to the Churchill proposition, which helped us grow through the price comparison channel at our target loss ratios, albeit it also drove us to lower risk mix and lower average premiums. Claims inflation was as expected, following a very benign 2017. Frequency in 2018 ended up normal, having seen some spikes in the year, and our overall long-term view of claims inflation remains unchanged at 3% to 5%. I'm particularly pleased with how our own repair centers dealt with the peaks, adding shifts to help our customers back on the road. This is the kind of claims fulfillment capability that few other insurers have and gives us a real edge in both meeting our customer needs and managing our claims costs. Last year, we added our 20th repair center.

Moving to the Motor financial results, which was up GBP18 million. This increase was a function of the GBP57 million impairment we took in the previous year, offset by lower prior year reserve releases. Excluding these, current year profitability improved slightly, which I'm pleased with, given the strong comparative. Prior year releases in Motor continued to steadily reduce, consistent with the greater levels of reinsurance purchased in recent years. And as I mentioned, we now reserve assuming an Ogden discount rate of 0%. Finally, we renewed our reinsurance at the start of the year, maintaining our cover to a GBP1 million retention level, but at more favorable rates. Overall, an excellent result in a competitive market.

Now, Slide 10 shows the updated ABI Motor premium data indexed to the start of 2004, which we last showed you at half year. Since the half year, prices appear to have stabilized. Prices were up in Q4, which, as you can see, is the trend for fourth quarters in general, but still down year-on-year. In early 2019, the market remained very competitive, and we're disappointed that the market appears not to have begun pricing claims inflation. We remain focused on maintaining our pricing discipline and we'll continue to prioritize target loss ratios over volume. However, while we can't be immune from the 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 own path.

In regard to regulatory issues impacting Motor, we're waiting on the final Ogden decision but believe that the market has broadly adjusted for a rate between 0% to 1%, and we have the whiplash reforms expected next year too. So we welcome the passing of Civil Liabilities Act and we also welcome the FCA pricing review. As you know, the FCA focus on pricing is an area where we've been proactive, capping or reducing prices for many long-standing customers, as well as championing industry initiatives. We think the FCA is taking a considered approach, and if the industry pricing model changed, we believe that with a level playing field, our leading brands and capabilities should still be an advantage.

I think that leads us nicely on to Home on Slide 11. The Home market was very competitive last year, and we saw less shopping in the direct channel. In that context, I'm really pleased with how we traded. As we held our own brand IFPs and increased average premiums by 0.4%, we were able to protect the value in our own brands through pricing for claims inflation, although this was largely offset by the shift towards lower average premiums in the price comparison channel. Our focus on price comparison capability helped us in Home as well as in Motor as we took some targeted action on retention to improve value. In terms of claims inflation, there's no change to our long-term view of 3% to 5% per annum.

Moving to operating profit, I'm really pleased with the team here, delivering GBP83 million of profit, despite the partner loss and the higher weather costs. If you normalize the Home results for weather, you will see we actually grew profits by GBP4 million, which is really impressive given all the headwinds. At an underwriting level, you will see in a few slides' time a switch between the loss ratio and the commission ratio as the business mix has changed. The exiting partners had an impact on the shape of the Home result in 2018, but from here on, we expect much less noise.

Now to our two other businesses. Commercial delivered a solid GBP60 million operating profit despite higher weather costs in 2018. The headline decline on our operating profit hides a good underlying performance, as improved current year profitability offset lower prior year releases. The improvement in current year profitability has been supported by the investments we've made in improving technical pricing capability in the Group's broker business, NIG, and by the continued growth in the more profitable DL4B. Weather costs were GBP10 million higher than 2017, but remained below our annual expectation of GBP20 million. Finally, in Rescue and other personal lines, profit was broadly flat with a combined profit of GBP4 million -- GBP43 million, sorry. This was largely driven by Rescue, which delivered GBP40 million in 2018, GBP4 million lower than the prior year due to a combination of higher weather-related costs and tighter partner terms.

Now, we've been through the categories, but what does the picture look like at a Group level. As you know, we're focused on growing current year profitability, offsetting the gradual decline in our prior year reserve releases. We have three key levers: grow our business, improve our technical margins and improve our efficiency. We've already shown you the steady underlying growth we've been achieving over the past few years. So here, I want to focus on the technical margins. We've combined the current year attritional loss ratio and the commission ratio to try and help steer through the noise from the business mix shift last year. As you can see, over the past five years, we've steadily reduced our combined loss and commission ratios. This year, you can see the attritional ratio ticked up and the commission ratio went the other way. This is largely driven by the partner exits, although as we described earlier, the increase in the Motor loss ratio contributes as well. While the recognition patterns of commissions make this an imperfect analysis in any one year, it does demonstrate the general trend we've been trying and continue to work towards. Looking forward, on commission ratio, we can expect some modest reduction again in 2019, and thereafter, its shape will depend on the future partnership activity.

The other major lever we have is to improve -- to improve our current year profitability is expenses, shown here on Slide 14. Improving the expense ratio is key to sustaining our competitiveness. At this time last year, I spoke about the real opportunity to reduce this. We've made some progress last year, absorbing cost inflation, the exit from Nationwide Home and managing the significant change in the business, all while trading successfully in competitive markets. This helped us reduce our expense ratio by 50 basis points.

2019 is a pivotal year for the delivery of our ambitious IT program. This provides a springboard for us to deliver greater efficiency through self-service and digitalization, and we expect it to help us further lower the expense ratio over time. While this program is due to really start making a difference from 2020, we also aim to continue making progress on costs. This year, we are targeting to reduce operating expenses to below GBP700 million, cutting costs in absolute terms, while continuing to invest for the future.

Now, to the prior year, which you can see is trending as expected and in line with what we've been guiding for so many years now. Our reserving philosophy always has been and remains to strike our initial reserves at the prudent end of the best estimate range. This has resulted in profits in the form of favorable prior year development. The level of release is reducing steadily over time, as our larger bodily injury claims are backed by reinsurance rather than by our own capital. At the top, you can see the impact on the combined ratio and how our assumed Ogden discount rate has developed over the past five years. There's been some noise with the changes to the Ogden discount rate, but excluding that, the broad trend reflects the reducing reserve risk on the balance sheet.

Moving to the investment results on Slide 16, which was slightly ahead of our GBP150 million guidance at GBP155 million. Lower assets under management, higher hedging costs and lower gains led to a GBP21 million reduction in the headline results. As you can see, net investment income after hedging delivered a yield of 2%, resulting in a decline of 8.3%, broadly mirroring the decline in assets under management. In the current interest rates and credit environment, we expect the net income yield to remain around 2% this year. Whilst this may not seem very exciting guidance, you can see from the chart on the left here, it's the first time in some years that net investment income yield is not expected to be a headwind for the Group's earnings. This trend does, however, have an unfavorable impact on the optical benefits of gains. We recognized GBP26 million last year, GBP9 million less than for 2017. Just under half was from property revaluations. Importantly, the available for sale reserve had reversed from a gain of GBP80 million at the end of 2017 to unrealized loss of GBP37 million at the end of last year. Although we have seen some reversal of the unrealized loss position so far this year, the opportunity to realize gains is significantly lower in 2019 than it was in 2018.

Now, before we get to the capital slide, a reminder of how our balance sheet risk profile has developed on Slide 17. On the left, you can see how the net claims liabilities have declined as a result of the increased reinsurance protection over the years, particularly from 2014. As you'd expect, assets under management have followed suit. And as you will see in our solvency slide shortly, the capital required to back assets and liabilities has also reduced. Over the planning period, we expect the balance sheet sides to begin to stabilize and then grow as the riskier back book runs off.

On the pie chart on the right, you can see our investment holdings, which form a diverse fixed income portfolio, split predominantly across the UK and the US. As you'll recall from previous disclosures that we hold non-UK assets to increase our credit diversification, while hedging non-UK interest rate and currency exposure. For several months now, we've not been reinvesting maturing assets in order to reduce our credit exposure through the current political uncertainty. Although not a huge reduction in exposure, it means we're slightly underinvested and overweight cash compared to our target benchmark.

Now, to the Group's capital generation, which has supported both attractive dividends to shareholders and a high level of investment back into the business. This year has seen a GBP130 million reduction in the SCR. Approximately half of this is a direct response to the reduced risk on the balance sheet. As I said earlier, we expect the balance sheet to continue to shrink, albeit more slowly, and stabilizing in the coming years. This supply [ph] provides support for the CapEx we're investing with a view to strengthening the Group's capabilities. The widening of credit spreads last year contributed to reduction in the value of our investments by GBP60 million. Some of this has reversed in the first couple of months of the year.

Capital generation you see here is broadly consistent with the earnings of the business. CapEx was GBP150 million, above the average annual guidance previously given, as we seek to accelerate some of the benefits we are targeting. While our estimates on costs and timing of implementing our policy and pricing software remain broadly unchanged, we've expanded our investment program to accelerate improvements in our IT infrastructure and environment. We've also initiated a finance transformation program to improve operations, technology and to meet IFRS 17 requirements. So as I look at our investment plans, I expect to invest approximately GBP175 million this year, which should represent the peak of our investing, falling below -- to below GBP150 million in 2020 and reducing thereafter. Finally, the strong financial performance and capital position enabled the Group to grow the final regular dividend 3% to GBP0.14 and recommend a special dividend of GBP0.083.

Finally, turning to our solvency ratio on Slide 19, which is at a very strong 170% after proposed dividends. Under normal conditions, the Board expects to operate at a ratio around the middle of the risk appetite range of 140% to 180%. The current political and economic uncertainty, including Brexit, feels anything but normal. We've therefore chosen to err on the side of caution for the time being and maintain a more prudent solvency buffer. For context, this buffer above 160% is approximately equal to the Group's sensitivity to 100 bp credit spread widening. We will keep this position under review while we monitor the political and economic environment. In the future, we'll also consider the most appropriate mechanism for returning surplus capital, including buybacks as well as special dividends.

In summary, we've delivered another strong year of capital generation with reducing capital requirements, which has supported significant investment into the future of the business. We've distributed GBP0.293 pence to shareholders and maintained a strong solvency ratio, which should provide a degree of stability through uncertain political times.

So briefly to our financial targets in 2019 before we move on to our strategic progress and outlook. Once again, we aim to achieve a combined ratio of 93% to 95%, normalized for weather. We're targeting reducing our operating expenses to below GBP700 million this year. We expect our net investment income yield after hedging costs to be stable at 2% and for significantly lower gains than last year. And we expect to invest approximately GBP175 million in CapEx this year, representing the peak of our investments.

Now, I'll hand over to Paul for a few words on the Group's strategic progress so far. Paul?

Paul Geddes {BIO 2474781 <GO>}

Thank you. Penny. As I approach the end of my time as CEO, I'd like to highlight some of the many things I think this business can be really proud of. Starting with our financial performance, and over the past five years, we have met every single one of our targets, apart from when we had the Ogden hit in 2016. Whilst policy numbers are not directly an objective, they are a lens on the competitiveness of the business, and that's why it's gratifying to see that the growth in all four of our businesses, helped by the reboot of Direct Line in 2014. Our core and RoTE performances have, apart from the Ogden blip, been strong, and we have rewarded shareholders with strong dividends. Now, these results haven't happened by accident. I've got over 10,000 people to thank for a lot of hard work.

On Slide 22, you can see on the top left that we've nearly doubled the number of highly engaged people, and it was fantastic recently to be recognized as one of the Top 3 Big Businesses to Work For on the prestigious Sunday Times list. Now, having a diverse and energized workforce, who go the extra mile for customers every day, has driven an increase in our net promoter scores, which you can see here on the right, and in turn, that's helped us to attract and retain more customers, contributing to the 1 million new Direct Line brand policies we've added in the past five years. And all this has helped drive shareholder value with a total shareholder return since listing of 223%.

But there is still much to do, and I'm delighted to be handing over shortly to Penny who has helped shape the multi-brand, multi-channel strategy that we articulated last year. In Direct, I'm really proud of the Direct Line brands that we returned to growth following the reboot in 2014, and we've continued to make it better. We now have nine propositions not offered by any other insurer. Our latest marketing campaign broke this weekend. I'm sure you've all seen it on TV, and we're going to keep refreshing and improving this precious and valuable brand.

Onto two other significant medium-term Direct opportunities: Direct Line for Business has just passed 0.5 million policies, is on track to continue its growth as it benefits from its agile new platform; and Green Flag Rescue, under focused management and now with a multi-skilled center of excellence and leads. We've continued to grow premiums, improve our digital offer and dealt really well with over 600,000 breakdowns last year despite the weather challenges.

Now, it's the PCW channel where Penny rightly challenged us to get to best-in-class capabilities, so we can now grow profitably in the market's biggest channel. Last year, new anti-fraud initiatives and an improved Churchill proposition helped us grow new business in PCWs by 18%, and we see much more potential here, with some exciting news Penny will share in a moment. And let's not forget NIG. The progress we've made in the commercial business over the past few years is worth highlighting. It's proven a profitable, more predictable and growing business, and has come to be a real asset for the Group.

Finally, onto partnerships, where we're leveraging our digital manufacturing and servicing capabilities. I'm proud we're up and running with Volkswagen and leveraging our API capabilities with NatWest and RBS. We believe our capabilities are increasingly market leading and we're out there talking to potential new partners as we speak. Whilst these partnerships take time to land, we expect over the next couple of years to be announcing wins in the partnership channel.

So we have a robust strategy that's already delivering, but we are on the verge of starting to roll out new systems that we expect to step change our capability and unlock significant efficiency and capability improvements. It feels like the right time to hand over to Penny to talk about the future.

Penny James {BIO 15157212 <GO>}

Thanks Paul. This is a great business that's achieved great things but has many more opportunities to grow profitably. As I said earlier, I inherit a business with many strengths, powerful brands that customers trust, a highly engaged workforce that really cares about its customers, a multi-channel multi-product multi-brand approach that gives us real diversification, a best-in-class service and claims capability. All these strengths are underpinned by a very strong balance sheet. We're in the process of transforming almost every part of this business, equipping it with better tools and simplifying processes. These new systems give us the opportunity to evolve the way we work, creating opportunity for us to be much more efficient and agile as a business.

To Slide 24, we're entering a highly ambitious two-year period for the Group as we implement the technology to unlock new capabilities and improve our efficiency. When executed, this should create a springboard from which we can grow the business' profitability. Those of you who joined us at Bristol will recall the system challenges that our people face. We are just weeks away now from the start of the roll-out process of our new IT platform. As we take these first steps, I want to take a moment to give a flavor of some of the capabilities that we're working towards. We'll write our first life policies in the coming weeks initially with the new business from Privilege Motor customers before following with other brands and channels. Although the roll-out starts small, we will add further functionality over the next two years, and on the slide here, you can see some of the expected benefits.

For customers, they will be able to move seamlessly between channels, access greater self-service through their own customer portal and benefit from greater product choice, to name just a few of the benefits. And behind the scenes, our people have better customer information, which will help us innovate and serve our customers even better than we do today. From a pure efficiency perspective, we're designing for greater automation of routine tasks like payment reminders and deferred policy cancellations, all of which require significant manual intervention today. And for pricing, we see a step change in the speed and accuracy of our pricing changes, supported by greater third-party data and data validation helping us to sharpen our pricing accuracy, fraud prevention and competitiveness. Overtime, we will also build multi-product offerings, increase our cross-sell abilities and make even greater use of data sources available to us. Also in a pretty busy half for us, our new travel system is in technical go-live phase and is expected to be live for customers by half year.

Now I mentioned earlier further investments into IT architecture. So what is this? Well, in addition to upgrading our software applications, we're also upgrading our hosting services and mainframe to transition to modern on-premise infrastructure and cloud platforms. This is all designed to support a more flexible, more reliable, and cheaper solution to improve our performance of both our applications and our people. We believe this investment will support growth in the current-year profit contribution of the business as we leverage the Group's competitive advantages that I laid out earlier.

But we also invest in a number of growth opportunities over the medium term. Direct Line for Business was launched in 2007 and has grown every year since. During the past five years alone, it has grown at CAGR of over 7% and we've written our 500,000th policy. That's been achieved primarily with two products, Van and Landlord insurance. But as you know, we are also striving to create and capture the direct SME market. So we built a new platform and last year launched insurance cover to 500 new trades. We estimate the direct SME market could be a GBP3 billion market. Although the numbers are small today, we're excited about the progress we're making, and we believe over the medium term, it has the potential to drive value. This year, we'll be migrating Van and Tradesman cover to our new system as we continue to press Home our earlier mover advantage. Green Flag has also grown at a tremendous pace over the past five years at over 9% CAGR, and we're getting close to the 1 million policy milestone. As you know, Rescue's new management has a five-year transformation plan to invest in the business to realize growth opportunity, and I'm excited by the prospects.

And finally, I'm really excited today to announce that we're shortly launching a new brand, Darwin, our first in 25 years. It's a new brand in the price comparison space with clear, straightforward products, full customer self-service and new pricing models using more sophisticated math techniques and machine learning. It's backed by the skill and scale of the Group's claims fulfillment capability. Darwin is built on cloud-based architecture. We believe it will enable us to deepen our competitive footprint with more granular and flexible pricing capabilities. We're in the final stages of testing and are aiming to launch next quarter to our Motor customers. While we're not expecting any great immediate impacts, we believe this gives us another uncorrelated avenue into the Motor market and is also testing new techniques that we could over time transfer into our core offerings.

Finally, back to the key messages on Slide 26 that Paul spoke to earlier. I'd like to give my perspective as an incoming CEO. This is a great business and a really exciting time to be taking over, given the level of transformation. We are an ambitious company that has an absolute determination to serve its customers. Since joining 18 months ago, one of the things that struck me about the Group is what I can only describe as a cultural drive to aim higher, whether it's our unique brand propositions, which give customers the reasons to come to direct; or accident repair centers turning around seven-day repairs, making our customer lives easier and enabling us to control our claims costs; or Darwin, which shows that innovation and disruption are still firmly in our DNA. And crucially, there is potential to improve and grow this business. Once again, the Group has delivered a strong set of results despite the market competitiveness, and we will continue to use our expertise, experience and discipline to manage through what is becoming a challenging market.

Over the next two years, as we move through our transformation, instead of being inhibited by our technology, we should become advantaged by it. But to be competitive in the future, we must also be more efficient. If we intend to make -- we intend to make further progress on costs this year, but I expect the real win to come as the benefits of our multi-year investment program crystallize. That's why I'm focused on execution so that we can continue to grow our current year profitability. We're doing all of this with a strong, flexible and increasingly efficient balance sheet that puts us in a strong position to support shareholder returns through our transformation period. The future is very exciting, and I look forward to sharing more detail with you later this year.

And with that, Paul and I look forward to taking your questions.

Questions And Answers

A - Paul Geddes {BIO 2474781 <GO>}

Very good. Thank you. So we have some technology here. So you have a button to press and to speak, red light goes on, and then at the end, you can put off. Right, let's start, why don't we -- we'll sweep this way.

Q - James Shuck {BIO 3680082 <GO>}

Thank you. It's James Shuck from Citi. So I have three questions if I could. Just on Slide 36, in the operating expenses outlook because you are targeting an absolute reduction in the level of operating expenses. Just hoping you can give us some guidance in terms of the different buckets so that's expected to come from, please, and also interested in the timeline for the amortization of the infrastructure that you've actually invested in so far. That's first question.

Secondly, in terms of direct players, we're seeing direct players growing over the past few years at the expense of other players who have been less successful, particularly through the broker channel. Now at some stage, that market share gain and that channel shift is going to settle down. And I'm interested to know in terms of that profile, to what extent you're actually gaining from channel shift and to what extent will that continue to go before you actually have to start taking market share against incumbents on the direct side, please.

And then finally, just in terms of the new systems and the roll-out, so very interesting stuff and you've taken us through Bristol and exciting things in store. Just interested to know what some of the key risks are in terms of that new system roll-outs. So 12 months' time -- I know you've been testing and learning for many years now, but what could go wrong?

A - Paul Geddes {BIO 2474781 <GO>}

Great. Let me do the two and three and return to Penny on one. I think the share of direct versus PCWs is actually partly driven by whether the direct players do innovative stuff and give people reasons to come to direct, it seems inevitability. So I'm going to do a few questions, giving a nine or 10-year view here. So forgive me it's my last time. It was almost a tenet of faith that obviously the market will go to PCWs and the direct players were kind of making -- self-fulfilling that because there was nothing better about the direct players. And I think actually all the stuff that we've done in Direct Line and fair credit to what Admiral is doing on multi-car and what Aviva is doing, we've given people reasons to come direct. So I don't think that this is an outcome of the things which we do to give people a reason to come direct rather than inevitability of trends, right? And we continue to do things for direct. That said, I think what we've got in having a proper PCW strategy with Darwin and actually many of the benefits coming through on the new personal line systems is directed to our competitiveness in PCWs. We want to be a very profitable, very successful PCW player. So actually, versus -- when I came into the Group, when we were kind of very defensive about PCW, our intention is to be not agnostic because we always had a special place in the hearts for -- but much, much, much less critically dependent on the success of the direct channel versus PCW channel if that make sense.

The new systems, you might have spotted, we've taken our time to get to where we are here and we've taken our time to make sure that we didn't go down the blind alleys. As you know, we rebuilt our data architecture for performance. We've gone to make sure that we have high conformity with the standards of the products that we're buying, so we'll benefit from their upgrade path. So I think we've reduced a lot of risks there. And the approach we'll take will be throttling up gradually and switching things on as they were. We'll be checking the prices we write business at, how they are compared with the prices we would have written on in the old systems. So we've got plenty of brakes and accelerations, and we're not going to be driven by speed. And so I kind of -- I don't want to tempt fate at all, but we're taking a low risk approach to rolling it out. I've seen it working, and it's a complete antidote to everything you saw in Bristol. But it's working and it's up and running.

I think the other thing to say -- I'm sorry to indulge me again on this one. The people who have helped us build it build a lot of these systems with players around the world. I think one of the fears is because we started some time ago is the thing we'll kind of limp out to the gate, some sort of old generation not very good version of all these systems. Actually people are choosing to work on our project versus others around the world because it's the latest version of all the Guidewire systems that's integrated into Radar Live. It's the first time that's done, which we think is the best pricing system. It's all on the cloud -- or a lot of it is on the cloud, more than other players, and it's all hung together with APIs, which makes it hugely adaptable. So the thing which we will launch will I think be the best set of insurance systems in the current generation, and then of course, we've got Darwin as well.

Long answer, sorry. Penny, expenses.

A - Penny James {BIO 15157212 <GO>}

Actually a shorter answer. Savings actually coming from a variety of lines, some marketing efficiency, IT run costs, some supplier cost reductions and some people reduction, so a real mixture across the board. And in terms of the amortization timelines, as the systems go live, we start amortizing. So EVO [ph] in the Direct Line -- DL4B space will already be amortizing, and the Guidewire systems, et cetera, as they come on stream, we'll start amortizing.

Q - Unidentified Participant

(inaudible).

A - Penny James {BIO 15157212 <GO>}

Up to 10, from memory, up to 10. So...

Q - James Shuck {BIO 3680082 <GO>}

It seems quite a long amortization time frame.

A - Penny James {BIO 15157212 <GO>}

Pretty standard, I think.

Q - James Shuck {BIO 3680082 <GO>}

Yeah.

A - Paul Geddes {BIO 2474781 <GO>}

We have been on the last system since 1985, so -- yes?

Q - Dominic O'Mahony

Thank you. Dom O'Mahony, Exane BNP Paribas. Three questions from me. One on Motor pricing. So I think about six months ago, we were expecting that pricing wouldn't catch up with claims because we had a bump year in '17 and some of that earned through. If I look at the numbers you gave us for the H2 '18 attritional in Motor, it looks to me a little bit like actually it's been more disappointing. Would it be fair to say that the market is more competitive than say six months or 12 months ago?

The second question is on the investment portfolio, and more broadly, the dynamic of reserves coming down -- assets under management coming down and capital requirement coming out as a result because of the reinsurance that's changed. You said that you expect that to flatten at some point. Is that sort of next year? Is that a three-year view? Could you give us some sense of the timing around that dynamic?

And then thirdly on Darwin, very exciting. Is it going to target any particular demographics, any particular segments that -- or sort of areas where you have competitive advantage where you can deploy that? Or indeed, is it too early to say?

A - Paul Geddes {BIO 2474781 <GO>}

So I will take one. Do you mind me taking three or two?

A - Penny James {BIO 15157212 <GO>}

(multiple speakers) all three.

A - Paul Geddes {BIO 2474781 <GO>}

(multiple speakers) Listen, Motor pricing, we use the word disappointing as the market isn't pricing claims inflation, which is I think acknowledged to be 3% to 5%. I think actually probably our claims inflation may be a little bit better in 2018 than the market because during that surge, having our own garage has probably helped us a bit. So prices aren't going up for that, right? Our prices were up a little bit, 0.6. We've obviously also done some self-help. We're getting some clues there on things like anti-fraud. So we kind of made our own (inaudible) loss ratio a bit. I think as we sit here today, we are just really clear going into '19 that we will go for our loss ratios first and take the volume consequences that follow. We're not neutral to volume. We like volume. It makes everything easier. But we are very much loss ratio first, and then we'll do as much of our self-help to get the most volume that we can.

A - Penny James {BIO 15157212 <GO>}

I'll just sort of supplement that on the loss ratio. I think if you'll half and half, you get a bit of noise, just the timing of reserving reviews and so and so forth. So I think we've really come out of the year running at about the annual 2017 rate rather than I think the second half is a bit unflattering. So that's not to say that we're still in the competitive market that Paul described, but I think that's probably a better indicator.

In terms of capital and reserves, I think we are not there yet. So I think towards the end of the plan period, not the beginning. And Darwin, not targeting particular demographics. What it's doing is using the data from our own -- our own historic data and using different pricing models on them and different modeling techniques. So it's actually going deeper into the segments we already write, but picking different customers. And what's interesting about the testing is it's showing that there's a limited but relatively limited overlap between them and the loss ratios look okay. Now that's testing, not live. So we'll roll out cautiously and slowly, but it's certainly interesting and certainly an interesting test and learn, if you like.

A - Paul Geddes {BIO 2474781 <GO>}

Right. I think we'll go to Greig (inaudible). Press the button even you --

Q - Greig Paterson

Greig Paterson, KBW. Sorry. I had a number of questions, but just in terms of Motor and Home, could you just tell us what your overall inflation turned out to be in those two lines relative to 3% to 5% range, because I can't see any reference to it in the presentation? Second point is I noticed the loss triangles, the booked versus best estimates are no longer in the presentation. In terms of the margin over best estimate, margin over ultimate that you book in Motor --

A - Penny James {BIO 15157212 <GO>}

Yeah.

Q - Greig Paterson

For 2018, did you book that margin in 2018 accident year or did you recycle it into the 2017 accident year? And then finally, in terms of the market in Motor currently, since we had issuer [ph] blowup a few weeks back, have you seen an easing/hardening of the cycle?

A - Paul Geddes {BIO 2474781 <GO>}

On the last one, your words, blowup, not mine. And I just know that the (inaudible) changed in the last few weeks. Let me do Motor claims inflation, because I've got a great answer, I'm going to tell you about it.

Q - Greig Paterson

We haven't seen any changes?

A - Paul Geddes {BIO 2474781 <GO>}

Yes, there's nothing suddenly [ph] happened in last few weeks. I think pretty flat, but no pricing claims inflation. So Motor, 3% to 5% -- kind of in the middle-ish of 3% to 5%, comprised of two bits, kind of BI which is about 40% of the cost, which is below the 3% to 5%, quite a long way below, and the non-BI which is 60% of the cost, the other perils running above the top of 3% to 5%, and netting down to 3% to 5%. And so -- and then we've got -- obviously got frequency then -- frequency is slightly harder to call, so frequency was like really good in 2017, which we treated, as you remember, as a blip. 2018, we then had started off with some kind of high frequency, which was largely we think due to weather, and it came back such that the total of 2018 was kind of a neutral year. You could, if you -- if you wanted to try and be optimistic about it, you can actually say, well, if you took away the blip of the start of 2018, there is an underlying downward trend on frequency, which it has been for many years and might be the flip side of all these bumpers and sensors. We are not banking that as a positive yet. We're being a bit cautious on that. So we're just assuming frequency is flat in the short term, which could be a conservative assumption.

Home, Penny?

A - Penny James {BIO 15157212 <GO>}

Home, shorter answer, yeah, we're now 3% to 5%, approaching that level. Subs was -- that's weather -- excluding all the weather events. The subs was immaterially up over normal expectations, but overall, 3% to 5%.

Q - Greig Paterson

5% or in the middle?

A - Penny James {BIO 15157212 <GO>}

Somewhere in the middle of the range.

A - Paul Geddes {BIO 2474781 <GO>}

And triangles?

A - Penny James {BIO 15157212 <GO>}

Oh, sorry. Triangles, I'm not sure I fully follow your question, but I think if I express it like this, we haven't fundamentally changed our reserving strength philosophies. So we are -- you would expect to see strength going in a bit at the beginning and then come out as prior year development over time. I am not quite sure whether that was the question or not, but that's the approach we're taking.

Q - Greig Paterson

I have to say previously, you actually showed a slide where you showed your booked loss triangles versus your best estimate, and there was a change in 2015 where you moved the margin from the initial pick to you recycling the duration to -- and something funny went on at end of 2017 which I haven't quite put my finger on it, but I suspect you put the margin possibly back into the initial picks. I just want to know where we are with this reserving approach in the way it comes through in terms of IFRS.

A - Penny James {BIO 15157212 <GO>}

I suggest we follow up on the detail, but there is no interesting story other than we are following the same philosophy and so on and so forth. So if there are specific numbers that we need to pick up, we can do that.

A - Paul Geddes {BIO 2474781 <GO>}

Great. Thank you. Right. We're moving to the middle section. You can turn your -- press the button again correctly.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BofA Merrill Lynch. Three from me, if that's okay. So firstly, just wondered in the expense guidance that you've given for 2019, is there anything specifically for the Darwin ramp-up or there will be ramping up the brand or anything like that, and how you expect expenses to be for Darwin going forward?

Secondly, just for uses of capital, you mentioned a few. How does M&A fit into the picture and can you remind us on your criteria for that?

And thirdly, just on solvency, I think maybe your deferred tax asset increased a little bit. Just how you think about DTA in your solvency picture? Thanks.

A - Penny James {BIO 15157212 <GO>}

Expense guidance first. No big marketing costs in Darwin. Price comparison-only brand, so we wouldn't expect to see a big marketing budget, in fact negligible marketing budget behind it. So you should see it just come through as normal expenses, and it's within the guidance that's been given. M&A, do you want to --

A - Paul Geddes {BIO 2474781 <GO>}

Yeah. Listen, I think we are building amazing sort of capabilities here, brands, channels, technology, routes to market, different pricing model. So we don't need M&A to execute the strategy. It's not in itself the plan. Some more partnerships is something which we think should inevitably happen as a result of our capabilities being there. And obviously, you'd expect us to run (inaudible) over things that come up and see whether it would be accretive or accelerate our strategy. We've obviously got quite a high -- and I think Penny will retain -- quite a high hurdle for -- if were to do some big M&A, it'd need to be a very clearly accretive deal and it would need to be not distracting from the main task, which is delivering this plan, which has got a lot to execute. I think we share our philosophy on M&A.

A - Penny James {BIO 15157212 <GO>}

Yeah, absolutely. Deferred tax asset, again, don't think we've got any dramatic news on deferred tax asset in there, and so we hold it right at what we think is a relatively prudent position in there.

A - Paul Geddes {BIO 2474781 <GO>}

Pearce, moving over? Yes.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, Iain Pearce from Berenberg. Just the one question from me. On Motor new business volumes, so you had Motor new business volume up 18% year-on-year on PCWs, but down overall for the Group. So I'm just trying to understand what's happened in the direct channel, if you're seeing any trends there and what caused that to be down year-on-year.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah. So I mean the direct channel works actually well for us in a high shopping market. So with prices going up, people tend to shop and direct does well, so we have a very good proposition. So it's slightly a myth. It's the other way around. And so the benefit of having the diversification of the channels is that we can pick up a kind of busy year on PCW if you have a slightly less busy year direct. Direct is still very good. And if you think about -- we said -- we started to grow direct, I said one of the concerns would be, are they the same quality of customers that you are recruiting that you had, is it the proposition? And it looks very much that way as it's performing as we expected. The extra customers we picked up in '17, as Penny said, we've been pleased with how we have retained those customers into '18. So it's a benefit from our channel strategy. Yes?

Q - Paul De'Ath

Hi, Paul De'Ath from Shore Capital. I just wanted to expand on the whole Darwin aspect. And you've talked before about how you potentially over-service some of your customers because you -- every one is serviced essentially by the Direct Line staff, even though they are paying less. How does Darwin come into that mix? Does it add an extra difficulty within that or can you kind of -- I know you talked about self-service, can you expand the self-service into some of the other brands once you've rolled out Darwin? It will be interesting.

A - Penny James {BIO 15157212 <GO>}

So that's an interesting question. We have set it up a bit like a start-up business, Darwin, on its own systems so that it's not kind of caught up behind the broader development queue, if you like. And in doing so, it's full customer self-service, so it's very much not in the over-served category. But we're still leveraging the scale benefits through the -- as and when should it grow, we will be leveraging the scale benefits and the customers are going to benefit from being in the broader back of its claims fulfillment side. So actually, it's very simple, very basic product, very clear to the customer and all self-service. So for us, quite an interesting experiment in that sense.

A - Paul Geddes {BIO 2474781 <GO>}

Good. Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

Can I ask a couple of questions. It's Andrew Crean of Autonomous. Firstly, can you give us a bit more flavor, or numbers even, to the balance between lower costs and lower reserve releases? I know you have given a GBP700 million -- or below GBP700 million of costs in 2019, but I think you have said that 2020 is the big change here, so if we have a little bit more on that and have that balances on reserve. And I actually haven't looked through the slides because I also had another company, but can you give us the -- if you haven't given us -- the policy count growth in PCW versus direct for Motor and Home? Because that's the sort of key thing which we're looking at.

A - Penny James {BIO 15157212 <GO>}

Do you want to add? So (inaudible) lower costs prior -- look, you know what we're trying to do. With the prior comes down, we're trying to make sure that the current year is improving at a similar sort of rate, and that's what keeps us in the 93% to 95%. It will come in the form of, as system developments come in, loss ratio benefits from both fraud prevention and pricing benefits, as well as expenses. What we're trying to do by putting a bit of guidance out for next year is: A, give you a bit of steer; and B, demonstrate that we're actually committed to moving the cost base in the right direction. But overall, we're trying to balance those factors out, and by giving you some trend graphs on what prior year has done, we hope to give you a steer on that as well. In terms of policy count growth, so, yeah, 18% on for Motor on price comparison --

A - Paul Geddes {BIO 2474781 <GO>}

On new business.

A - Penny James {BIO 15157212 <GO>}

On new business.

Q - Andrew Crean {BIO 16513202 <GO>}

So that's new business. That's not --

A - Penny James {BIO 15157212 <GO>}

Overall policy counts, in-force policies, Motor owned brands, up 2.7%. Price comparisons, Paul, how much have we got there?

A - Paul Geddes {BIO 2474781 <GO>}

Yeah. Let me just check whether it needs disclosure because I think if we haven't disclosed it yet, I don't want to make a disclosure on the fly here. We'll take that away Andrew. No, it's just one of these things on the edge of commercial sensitivity. I don't think -- we won't make a disclosure choice just on the fly here. If we're going to make it, we will give it to everybody. So we'll take away the request, Andrew, and I will think about it. Good. Yes?

Q - Sami Taipalus {BIO 17452234 <GO>}

Yes. Sami Taipalus from Goldman Sachs. Just the first question on your Home book and the combined ratio development, there you managed on normalized combined ratio improvement in 2018 over '17. How much of that was mix and how much was other factors like market factors, and what's the outlook for 2019?

And then the second question is on your investment portfolio. What -- so you mentioned that you're slightly reducing your reinvestment in credit instruments at the moment. What's the comfort level with these in the medium term, I guess, both on the credit and the commercial property side? Is this a temporary shift or is it something that's going to be a bit more permanent? Thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. Movement in the Home ratio is primarily mix driven, so not driven by some reaction to a regulatory measure. So it's all about the partnership mix, and just a little bit -- we talked about subs -- a little bit due to subs and so on and so forth, but primarily mix. The investments, yeah, we've held back a little bit from reinvesting just because of the uncertainty. Definitely a temporary measure, not a permanent one. We're actually very comfortable with the diversification in the book. You know we invest in both the US and the UK to get individual issuer diversification. We monitor those investments closely. We have an in-house team as well as external managers, and actually, we're very comfortable with how that credit portfolio is positioned. But as you know, Solvency II doesn't look at overall credit defaults as an issue. It just takes credit spreads. Markets have a habit of shock responding to dislocations. And what we're really doing is saying, if there were a short-term dislocation in the market, then make it sure we've got some cover for that. So it's more about how the solvency metric responds than it's about whether we're -- concerns on the underlying portfolio.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. So I'll (inaudible).

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning. Dhruv Gahlaut, HSBC. Just two questions actually. Firstly, could you talk about pricing on the commercial line side, how that's developed? And also could you give what is the combined ratio of the NIG business last year?

Secondly, there is a fair amount of investments going on to the business and you're talking about transmission, et cetera. When can we actually expect these to go into combined ratio in the sense that you actually change your target as it gets revised down or is the understanding that lot of these investments are more to keep the combined ratio target at this 93%, 95% level?

A - Penny James {BIO 15157212 <GO>}

Okay. So pricing in NIG, so we priced ahead of claims inflation in all lines in NIG. So they've had a very strong year in terms of both pricing and improving margins, as well as getting some growth through, so good results. And we don't separately give the core. And investments, the investments we're making, the short answer is, it's all part of maintaining the 93% to 95% and giving yourself growth opportunities from here. The slightly longer answer is, I think you'll start to see -- you should start to see the shape shift in 2020 and then the benefits come through beyond, obviously considerably beyond that.

A - Paul Geddes {BIO 2474781 <GO>}

On NIG, the thing we have said was -- we didn't disclose is (inaudible) is a more profitable and has a better core than NIG, and in aggregate, not quite the Group's core target. But as Penny said, the actions that we're taking directly ahead of claims inflation is starting -- we will close that gap. Good, right. Yes, let's go. Yes.

Q - Fahad Changazi {BIO 15216120 <GO>}

Fahad Changazi from Mediobanca. Can I just ask, could you give some guidance on the trajectory of the SCR? Half of that, GBP130 million is related to a smaller balance sheet. Could we expect the same next year, next two years? And secondly just on this Brexit uncertainty, is getting an extension to Article 50 somewhat more certain when you reassess and also will you take the capital return decision at full year results or will you look to perhaps take it at H1?

A - Penny James {BIO 15157212 <GO>}

Okay. SCR, I think I've answered a similar sort of question. I'm not going to predict exactly what the SCR is going to be next year, but the trends on the balance sheet shape, I would say, it's got a couple of years yet to run through, but there are lots and lots of factors that go into SCR as well as that, but that's the main trend.

Brexit, look, I'm not in the business of second guessing, what will or won't happen and whether or not a deferral has anyone -- it's just -- that's for the politicians to worry about. From our perspective, there is lots of uncertainty, actually not just from Brexit, from broader credit issues linked to the US as well. And it just seems like a very volatile period. As a Board, we've agreed that we'll keep under active review and we'll definitely update at half year. So we haven't precluded the possibility of paying outside the normal cycle, given that it's a (inaudible) affairs.

A - Paul Geddes {BIO 2474781 <GO>}

Great. Yes?

Q - Nick Johnson {BIO 1774629 <GO>}

It's Nick Johnson from Numis. Just a question on the guidance you're giving around invested assets continuing to fall. Does that take into account potential reduction in claims and premiums from whiplash reforms end of this year into '20? Could you give your thoughts around that, please?

A - Penny James {BIO 15157212 <GO>}

I think the real driver on the balance sheet shape and the assets falling is the back book run-off, if we call it that, sort of the old BI claims running down and new ones being on reinsurance. So I think anything that's happening on new business around whiplash I think is going to have a much lesser effect than that drift.

A - Paul Geddes {BIO 2474781 <GO>}

Great. Yes. Last few. Yeah?

Q - Edward Morris {BIO 16274236 <GO>}

Thanks, Ed Morris from JPMorgan. Two questions. First of all, can you just comment a little more on the FCA market study, which I think you said you're welcoming. I just wonder one of the things you suggested is that there could be a change in the way the market essentially structures the insurance product. Is there any contingency in your CapEx numbers and things like that for a slightly more structural change if that was to come about? And just some comments there would be helpful

And the second question is on the balance sheet. I noticed your comment sort of progress towards a more capital-efficient balance sheet. Does that suggest you view the balance sheet as slightly inefficient currently and could you do anything more aggressive to improve that? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

Good. Let me take the FCA one. So I believe the market generally works well, but it works less well in certain kind of quarters, and obviously that's where we've taken some proactive actions and the industry has taken some actions, but a further change would require some central coordination to avoid first-move disadvantage and it would take some change to the structure of the market in terms of pricing. Now, there's lots of flavors of how that could be. So we haven't even yet -- on the problems definition, let alone the potential remedies, let alone the market reaction, let alone how we play into that. So it's a bit early to kind of do so well. So I guess what we've said is, we have an agile ship [ph] with lots of advantage. In a different market structure, we then work out how we would deploy those assets and resources, our brands -- our different brands, our different channels, our data, our supply chain advantages we think should also be advantages in a different world, and it's very, very hard to kind of exactly predict and play it all out.

In aggregate, I think that the feeling is, in aggregate, the market makes too much money. The question is, is it working well for each of the different parts of the market? So I think in a slightly different structured market, the market would adapt, we'd adapt, but it's very early to kind of pin it down on any of the potential scenarios because there were lots of things -- lots of models from around the world that you could deploy. I guess what we're encouraged by is I think the FCA has taken a thoughtful approach to not suddenly go, well, hit this market model and then schedule a completely different market model, because there are some very attractive features the way the market works. It's very competitive. Lots of people shop. As we now switch on the TV, there's a lot of competition, low barriers to entry for new brands being formed. So we are encouraged taking a thoughtful approach, which hopefully will look up the good bits in the market. And other markets around the world work differently but not necessarily better.

Long answer. Penny?

A - Penny James {BIO 15157212 <GO>}

I'll go for shorter. So SCR and are we -- I forgot whether it was getting more aggressive, something like that. I think most of the capital efficiency point is driven by the reinsurance still winding through. So that's the biggest driver on making the balance sheet. The reason we have that reinsurance structure is because we believe it is a more efficient way of doing it. So that is yet to roll all the way through. If you look at the movement in the SCR, about half of it is that -- or maybe half to two-thirds of it's that. The rest is fine-tuning our model adjustments and so on where I think we've made some tightening, but only at a very fine-tuning level. There were a couple of other things in that space we're looking at as well, but it's at the edges compared to the reinsurance profile.

A - Paul Geddes {BIO 2474781 <GO>}

I think final one in the room, and will just go to the (inaudible).

Q - Jonathan Denham {BIO 19972914 <GO>}

Hi. Jon Denham, Morgan Stanley. Just one left from me. Yeah, the cost of hedging is currently quite burdensome. I think it's about GBP30 million last year. Is there any appetite to reduce this and take a little bit more FX risk maybe on the hedging of options-based strategies?

A - Penny James {BIO 15157212 <GO>}

I think no to the FX risk, but we look at the balance. You're right, it's certainly giving us less advantage than it was a couple of years ago. So we are tweaking down, but only tactically. We hedge some of the US exposure. Primarily, the most important thing for us is that it gives us credit diversification across just a much, much deeper pool of the individual issuer levels. So philosophically, we remain allied to that. But you're right, we are tactically reducing that level because if you pick up the net of hedging, it is more painful than it was.

A - Paul Geddes {BIO 2474781 <GO>}

Great. I'm going to check if you've got -- I'm not sure how the technology works. Anyone (inaudible) anyone on the line? Of course you can, if it's good one to end.

Q - Andrew Crean {BIO 16513202 <GO>}

Actually it's not a question, rather unexpectedly, it's fallen to me to give what's known as the old git [ph] speech. But Paul, it's been a long time. It's been a great joy among -- for us analysts to cover the stock. I love the fact that you finished the year beating consensus estimates again, something that you did regularly every year, but congratulations on that. For me, I will remember a comment you made once, you said, I'm not one of these Chief Executives who sucks up all the oxygen in the room. And that's been a litmus test, which I have applied to all Chief Executives, but they don't always pass it. But here, I think it's a great tribute to the team that you brought on -- bring around you that you have been able to do that. And I wish you all the luck in the future on behalf of all of these analysts, whether it's a John Lewis or wherever you're going?

A - Paul Geddes {BIO 2474781 <GO>}

No comment.

Q - Andrew Crean {BIO 16513202 <GO>}

Have a great time. And thank you for reminding us that insurance is not in fact a sausage machine where you put numbers in one end and they come out the other. It is in fact a business which needs marketing, it needs people and it need skill. And thank you for demonstrating that.

A - Paul Geddes {BIO 2474781 <GO>}

Thank you very much indeed.

A - Penny James {BIO 15157212 <GO>}

Andrew has been far more eloquent than I could have been, but it's left me to speak on behalf of the team, and I won't point out all the numerical benefits of his --

A - Paul Geddes {BIO 2474781 <GO>}

We're going to -- I think we are going to say good-bye to the webcast. So very good. Thank you.