S2 2011 Earnings Call

Company Participants

- David Stevens, COO
- Henry Engelhardt, CEO
- Kevin Chidwick, CFO

Other Participants

- Adrienne Lim, Analyst
- Andrew Broadfield, Analyst
- Andrew Crean, Analyst
- Colin Simpson, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- Paul Goodhind, Analyst
- Sachin Gupta, Analyst
- Tony Silverman, Analyst
- Unidentified Participant, Analyst

Presentation

Kevin Chidwick {BIO 15100612 <GO>}

Good morning, everybody, thanks for coming along. Welcome to Admiral's half-year results presentation 2011. Start by making an apology; Alastair Lyons, our Chairman, couldn't be here today, so apologies from him.

So you'll get the intro from me, and I'm going to introduce myself. I'm going to start by talking about the Group results and a bit of overall picture, followed by a short slide on UK price comparison; and then David will take over and talk about the UK results in a bit more detail and about the UK car insurance market commentary; and then Henry will give us some color on the international businesses and summarize; before of course, as usual, we'll be happy to take questions at the end.

So, first off, to say that these results, once again, represent that Admiral is different. Different because we have produced a very high return on capital, once again. These results are a return of capital more than 50%.

Different because we are fast-growing, once again. Over the seven years since we IPOed, we've produced a compound growth in our earnings per share of now nearly 20%.

Different because of our structure, our leveraged approach to the business, both in terms of the reinsurance structures, but some other areas as well.

And different because we are delivering high cash returns to our shareholders period upon period, and this one's no exception with another record interim dividend.

And these are the results. So we made GBP161 million in the first half of the year; up 27% on the first half of last year.

Our turnover was up just a bit more than 50%, turning over just over GBP1 billion in the first half of the year. That's on the back of vehicle growth of one-third, up to 3.2 million, nearly 3.2 million vehicles at the half point 2011.

And that return on capital I talked about was 63% for the first half of this year.

And that dividend, 39.1p, is up 20% on the same period last year and a new record.

This slide shows where those profits have come from; for the last four years on the left, and the last five half years on the right. And the GBP161 million that I've talked about, as you can see from obviously first glance at this slide, it's dominated by the red component, which is our UK car insurance business. And, in fact, of the GBP161 million, 105% of it came from the UK car insurance business.

5% from Confused, as you can see at the top, the dark blue color. Down a bit in percentage terms, but a relatively good performance for Confused in this first half.

And then beneath the line, there's two numbers there, the minus 6%[ph] in the green, that's our Group costs, which is primarily the cost of our share scheme, which is a bit higher in this period because our share price was a bit higher in this period than it was before and that drives the accounting.

And then the white color you can just make out between the two there, that's the losses from our international businesses, which Henry will talk about more in a few moments. But for now, suffice to say, it's just 4% drain on our P&L from our international operations.

We are fast-growing, as I said, and this slide shows it right from the beginning in 1993; organically growing year upon year consistently every year right the way through, and particularly turning up in the last couple of years, and the last couple of half years, as you can see from the blue bars there. And, as I've said already, a GBP1.1 billion turnover in the first half of this year, which is double the level of turnover we were doing in the first half in 2009, just two years ago.

I also said we deliver low risk profits; that's made up of a few components. Primarily, first and foremost is our conservative approach to reserving and our consistent delivery of combined ratios, south of 100%. And that enables us to put in place underwriting arrangements with our reinsurance partners, which mean that we protect the risk on the upside -- downside, sorry, but also create a model that uses up a low amount of capital as we're growing. And that's not just in the UK, but across all of our businesses.

So in the UK we take just over one-quarter, 27.5% of the risks, and the reinsurers take the balance; in Spain and Italy we take 35%, reinsurers taking the balance; and in the US, it's 30 -- it's a third; and in France, it's 30%.

So across all those businesses, as they're developing, we're getting protection from our reinsurance, or mitigation from our reinsurance on the losses that we were making in the early years, as of course they will be loss making as they begin, but also capital provision as we anticipate them getting bigger over time. And that's very significant to the model because it means that we can deliver good dividends as we grow, despite what is quite strong growth across all our businesses.

But it also -- our low risk approach also extends to our investments. We've got just over GBP1 billion in investments now, and those investments are in cash and cash line money market funds. Roughly half of them, as you can see from the chart at the bottom there, is in UK money market funds, and the other half is in fixed term cash deposits. And that generates dividends period upon period.

Our dividend policy has been the same ever since we came to market in 2004. We do look to pay out to our shareholders all the spare cash that we generate, and this period is the same. Our policy is to pay out 45% of our post-tax profits as a dividend, and pay the rest of the cash that we don't think we need for the business out of a special dividend.

And we do the calculation very explicitly; here it is on the right. We take our net equity of GBP392 million, we take off our goodwill, we take off our solvency requirement, we deduct a buffer, about GBP30 million, for unforeseen events, and then the rest is the dividend, which, at this point in time, is GBP106 million, which works out at 39.1p per share. Which, as I said before, is up 20% on the same point last year.

Not up quite as much as our earnings for this first half of the year, but that's probably to be expected given the level of growth we've seen in the business over the last 18 months. Even at our level of retention, there's still a little bit of capital required for that.

And the dividends will go back still[ph] on September 28, and be paid on October 21.

If I can go back to UK car insurance now and talk about the numbers there. The UK business was 105% of the profits in the first half of the year, and this chart shows where those profits have come from.

Once again, roughly half the profits, in the blue bars there, come from our ancillary revenues, which have behaved pretty consistently in the first half of this year; and then the balance comes from those other three colors.

The light green at the top is our installment income. That's a bit higher this period than in the past, and that's because Munich Re have stepped down their co-insurance share to 40% this period, and that means that we retain a bit more of the installment income than we would have had in the past.

And then the other two are the two sides of the same coin; the underwriting result from our own book in the red, and the profit commissions in the white that we get back from the reinsurers on that same underwriting.

Our underwriting result is broadly flat on last year, GBP22 million, compared to a very similar number last year, but obviously, therefore, down in percentage terms.

But our profit commissions are roughly the same in percentage terms, and, therefore, up in cash terms, and I'll seek to explain why that's the case on the next slide.

This slide shows the profit commissions and reserve releases set against each other for each of the last five reporting points for Admiral. And you can see here that it is quite clear that the red profit commissions there are significantly higher relative to reserve releases in this period compared to the past.

Now, our reserving policy remains the same. We do reserve conservatively, with an anticipation that we would make reserve releases going forward, assuming of course that our projected ultimates turn out to be broadly correct.

But it's also the case that, we've been saying for some time now, we anticipate a trend of lower reserve releases being accompanied by higher profit commissions through Admiral, as we report. And you can see that trend developing over the last couple of reporting periods.

But it's also true to say that the profit commissions in this period are somewhat higher than you might have expected, even given that trend. And the reason for that is twofold. The majority of these profit commissions arise from the 2010 underwriting year, and that's because the 2010 underwriting year is of course still earning through 2011 and generating profit commissions without the need for any reserve releases related to it.

And the 2010 year is booked at a level where it's already generating profit commissions, which wouldn't have been the case a couple of years ago where, when we do book conservatively, a couple of years back we were booking at a level which was round about 100% combined ratio, it wasn't producing any profit commissions. But now the initial booking, or the early bookings for 2010, it's delivering profit commissions as it's earning.

That's what's the first and biggest single reason why the profit commissions are higher this period.

The second reason is that 2010 was the first year that we really benefited from those revised reinsurance contracts that delivered better profit commissions, both on the reinsurers and with Munich Re, and so that drove that improvement in this period.

Aside our ancillary income, just to say that our ancillary income remains pretty stable; it's up a bit on our per vehicle basis to GBP78.90. Otherwise, it's grown very substantially on the back of that very strong growth in vehicle numbers, up 33% year on year.

Not much to say other than that; everything else has been broadly consistent through the period.

One caveat to mention, which I think I mentioned last time as well, which is the number is a bit distorted by very high growth. Our ancillary income is generated during the course of the policy; some of it's recognized upfront when we sell the policy and some of it is earned during the course of the policy, whereas, of course, this is taken as an average per vehicle and it's based on the average number of vehicles during the period.

So if we grow very fast then the number looks a bit higher than the actual underlying[ph] number really is, and I've tried to show that with the red bars on the bottom-left here.

So the underlying rate, if you like, the normalized rate if we were growing at a slower rate, say 10%, would be around about GBP75. So that probably wouldn't surprise you to hear me say, once again, if you're looking to model our ancillary revenues going forward, that's the kind of level I'd say that is more normal for our ancillary income going forward.

And then the last slide for me to comment on, Confused.com. We're very pleased with Confused.com's performance in the first half of 2011. It has steadied the ship, or steady as we go, as we put at the top of this slide. It's managed to hold its market share through the first half of the year, which meant it's grown its revenue up 10% to just over GBP40 million for the first half of the year. And that's a pleasing result. It means that it's attracting customers better than it was before.

But it's pretty hard work. As you can see from the bars on the bottom-left, the four main price comparison sites have spent more money on advertising in the first half of this year than they've ever spent in the past, which is putting pressure on everybody's margins, Confused included. So, on that turnover, Confused made a slightly lower margin, and that meant that it made GBP8.2 million in the first half of this year, compared to GBP8.8 million in the first half of last year.

But we are attracting more customers, and I think -- I'm very pleased to say that we're also serving those customers somewhat better than we were before. Our website has made some improvements that I think have helped, and our panel of insurers, the competitiveness of our prices has improved in the first half of this year as well, making Confused a better proposition than it was.

So pleased with the way Confused has done in the first half of this year. But it is a fiercely competitive market, so I'm not going to be bold enough to make any predictions about how Confused will fair going forward, other than to say it's still competing in a very tough environment.

That's it from me. Thank you, very much. I'll now hand you over to David.

David Stevens {BIO 6807391 <GO>}

Thank you, Kevin. As is normal at this time of year, I'm going to start my presentation by looking back at the results for the previous year, which have become available for the market over the last few weeks; then go onto look at Admiral's own performance and contrast that with the market's performance; and finish up, unusually, with a brief digression on referral fees, given the prominence of that issue in the media.

Now, in terms of the market, I think I would have expected that last -- the number for 2009, of just under 123% combined for the private market, would represent the worst point in the cycle and so it was striking that when the results did come out we've actually managed to blip up slightly above that with a combined ratio of 124% for the private motor market.

But that is, in a sense, that headline reported number, somewhat misleading because, as you can see from the graph here, the yellow line is the pure year result, and the pure year result has enjoyed a significant improvement. And, in fact, that there's an interesting symmetry between 2007 and 2010 in the sense that 2007 116%/116%, and the big difference is the 20 point turnaround in net reserve movement, where essentially one delivered a reported result of 104%, which was misleading, and one derivative reporting results of 124%, which was probably also misleading.

In fact, the numbers generally are rather misleading because the FSA returns become more and more difficult to use as a gauge to what's really happening in the market. And I think it's important people understand that.

First of all, we're all aware that this is a partial picture; there's more to private car insurance than claims, and expenses, and premiums. There's investment income; there's ancillaries. And our view is that on average for the market that adds another 8percentage points or 9percentage points to the return, and, of course, there's a very wide deviation around that average among the individual players.

But more recently the picture has become muddier because the FSA returns provide an increasingly limited coverage. Our own numbers aren't in here; Gibraltar, which is SAGA, Hastings, other companies, aren't -- isn't in here; Lloyds isn't in here, obviously shrinking but still material; and, more recently, Zurich isn't in here with their re-domicile to Dublin. So it is a limited picture.

It's also been subject to anomalies, and this year is no exception with the strange number from UKI, which I will revisit.

And the last big factor on 2010 that makes these numbers difficult to interpret is the outlier results from RBSI, who, of course, represent a huge proportion of the market.

If you just look at the overall market, you're seeing a pure year loss ratio of 92%, and 8% reserve strengthening, and a combined of 124%. If you pull out the RBSI collective result, which represents over one-third of the market, you see a very different set of numbers; a pure year result 10 points worse on the loss ratio at 120 -- 102%; a reserve strengthening of 22%; a combined ratio of 139%. And the balance of the market, neither a reserve release, nor a reserve strengthening, a combined outcome of 114%.

Which of these numbers represents a true picture of what happened in the market last year? Is it the overall market result? Is it the market result excluding RBSI? Is that 22% release -- reserve strengthening from RBSI a true number or itself partially a reflection of the prospect of flotation and change of ownership? So it is very hard to get a picture; unusually hard to get a picture of the true profitability of the market.

In that context, one way of looking at it is to flip the other way round and look at pricing, which is a symptom of pain. Now, obviously, there was significant pain in 2010; new business prices up over 30% during the course of 2010. And when we came into 2011 our expectation was that, that must come to an end shortly, that the first six months of the year would see small, maybe even no, price rises, and we were wrong.

The price increases in the first half have been, on the two different tracking measures we're using here, between 7% and 10%, annualized, therefore, at 15% to 20%. That suggests there is still continued pain out there amongst some participants. That's a more positive outcome than we anticipated six months ago.

But at the risk of repeating our misjudgment of six months ago, what we would say now is it ain't going to happen again in the second half. We don't anticipate material increases; some small increases, perhaps, but not at the same level as we've seen in the first half.

And there is evidence of appetite returning. Aviva for two or three years have stayed off the price comparison sites with the direct brand. In August of this year they launched with Quote Me Happy on one of the price comparison sites, so they're back with the direct brand on the price comparison sites. Zurich have expressed a desire in the second half of 2011 to get back into active participation on price comparison sites.

So the evidence is that some players are beginning to want more car insurance, and obviously that has implications for pricing in the second half.

Now, market profitability is opaque; pricing is only a partial indicator. But one thing is always reliable, and that's the growth of price comparison sites. So, yet again, price comparison sites have ground out an increase in their share of new business. So in the first half of 2011 we're up over 55% of all sales going through price comparison sites.

Let's take a look now at Admiral's performance. It had a period of very, very rapid growth. If you look back here to 2009, we were growing in volume terms in the UK in the mid to late teens, not particularly unusual level for us. But in the first half of 2010, as you can see, we began to accelerate as price increases were put into the market and our own increases somewhat lagged those, and as certain players withdrew, or withdrew from substantial sections of the market.

So our growth was 23% at the end of the first half of 2010 versus a year ago, rising to 32% at the end of the year, and 33% at the end of the half year.

Now, we are anticipating this growth will fall back materially by the year end for two reasons. First of all, the comparables get harder. We wrote a hell of a lot of business; you can see 0.4 million growth in the second half of 2010. That business comes up for renewal and, therefore, you need to do a lot more new business just to replace the lapses. So you're going to get some falling back there.

And the other thing that's going to lead to a falling back is our level of competitiveness, which rose throughout 2010, has fallen away over the last six months.

This is a graph that shows the percentage of times that we are top on price comparison sites over the last 18 months. As you can see, during the course of 2010 our share of number top -- number one, sorry, increased consistently as our price rises lagged the market and as some people withdrew wholesale from certain segments.

Our competitiveness peaked in January '11. Our prices have increased in the first half by low double-digits versus the market, which we think is high single-digit, and so we've gradually shed a bit of competitiveness during the course of the first half. So we'd expect at the year end the annualized growth number on vehicle will start with a 2.

Loss ratio, this is our classic loss ratio graph. Just a reminder, for those of you not familiar with it, the red line is the market; it's the market on a reported basis. The movement -- the number in brackets is the movement during 2010, so it's end 2010 versus end 2009. The blue line is not directly comparable; it's the actuarial projection of best estimate. The movement that's shown in the blue brackets is the movement during the six months from the end of December to the end of June 2011.

Couple of interesting things; the plus 5% on 2009 for the market, where you're seeing that, that reserve strengthening of 8% that I talked about, is quite disproportionately focused on the 2009 accident year.

In our own case, plus 3% and plus 4% on 2009 and 2004 -- 2010. Few points to make on that; first of all, our numbers are actuarial best estimates. As I've said a number of times the last two or three years that it is important to bear in mind that the nature of actuarial best estimates has evolved for us in the sense that when you go back five/eight years the actuary is we're working with a limited amount of data and we're typically taking, therefore, relatively conservative assumptions in the absence of full data. And then what tended to happen is the actuarial best estimates got better and better and better.

Now, we have said that as more data has become available to the actuaries they have become more and more inclined to what is a true best estimate, with much less likelihood of positive movements as a bias. So what you're seeing now is best estimates, which are true best estimates in a sense, have an equal chance of going up or going down. And it is dangerous to look at the triangle of historical best estimates and assume that what you've seen from five years ago on 2005 or '06 is going to repeat in five years' time on 2010 or '11.

So what you are seeing now is a number that is volatile on the recent years and can move up or down.

What you're also seeing, because we give you actuarial best estimates, is full exposure to that volatility, whereas in some respects the reported numbers for the market can sometimes hide the true underlying volatility.

The actual experience in the first half of 2011 in relation to 2009/2010 was that the medium and large bodily injury cases, particularly, in the case of 2010, the larger ones, developed above the historic evolution of those cases. And the actuaries have assumed that they, therefore, will finish above the historical evolution, and that there will be a higher level of bodily injury inflation on those two years than we have normally experienced.

The outcome for 2010, for example, is that the overall level of (inaudible) claims inflation is probably in the order of 10% if the actuarial projections prove to be correct; and for 2011 first half, it's in high single-digits, 8% or 9%. And this is materially higher than the 5% or 6% that you might consider to be a normal rate.

Now one of the big debates on Admiral is always going to be will the loss ratios converge over time, and I think there's ammunition for the bulls and there's ammunition for the bears here.

For the bulls, you can point at a comparison of 2008 and 2010. You can look at a period where Admiral's grown 75% in volume terms, and yet the loss ratio gap, as shown here, has stayed flat.

For the bears, you can look at 2010 versus 2009 and say the gap's narrowed by 5 points.

Our own view is that the gap must narrow in 2010/2011 in the sense that the business has grown phenomenally fast. In 2010, it did that partly by lagging price increases; that had some effect on the gap. It does affect the new business renewal mix; fat has some effect on the gap. Just mathematically, if your new business proportion is bigger, your loss ratio is worse.

And possibly, in growing 33% for 18 months -- 33% a year for 18 months, there may have been some slippage in terms of operational delivery on some areas and so we would anticipate some convergence of those loss ratios. I would say though that when we return to more normal levels of growth, as we undoubtedly will in the near future, then you would expect to see some of those factors unwind.

Go on to talk about the expense ratio, Admiral still has its very substantial and very reliable expense ratio gap. If you look at the headline numbers, and this is the market result in red on an earned basis and the Admiral result in blue on a written basis, one thing that we're particularly pleased about is the fact that the H1 2011 number, at 12.8%, is our lowest ever expense ratio and makes our controllable expenses only around 10% of our premium when you knock out fees, and levies, and all of the stuff that we actually have no say over.

If you look at the market results, it appears to have come down very substantially. I would caveat that somewhat because we have a strange number with UKI. UKI is the RBSI operation that focuses, or focused, on affinity business, predominantly Tesco. It wrote just over GBP500 million in 2009/2010; it recorded an expense ratio in 2009 of 31%; recorded an expense ratio in 2010 of minus 13%. We've set our operational area that as an inspirational target for next year.

In all probability, there's something going on here in terms of the unwinding of the Tesco relationship, reinsurance structures, and commissions, and things like that that make it an unreliable number. If you strip out UKI's expenses, you get a situation where the market has moved from 29% to 27%.

So if you combine those two, you get our combined ratio graph that we always like to show with a clear and sustained gap versus our competitors.

So, in summary, we have been growing very, very rapidly; that period is coming towards an end. It was exploiting an unusual situation in the market where we could grow, and that will prove to be very worthwhile in the long term.

We have enjoyed substantial price increases. Some of the benefit of those price increases has been eroded in 2009/2010 by higher levels of claims inflation that we've historically experienced on big claims.

And we do predict that there is, inevitably, some erosion of the outperformance on loss ratio as a result of that very rapid growth and the factors I talked about in terms of relative price movement, new business, and renewal mix. But once we've gone to a more normal growth situation that no longer becomes clear cut.

Lastly, I'd just like to do three slides on referral fees, not necessarily because of their materiality to the business but because of the column inches they've been generating in the last few months.

Just a quick overview from the market point of view. Our position, very strongly, is that personal injury referral fees are actually a symptom of a flawed system and not the cause of a flawed system.

On a typical bodily injury case, small bodily injury case, 50% of the cost is compensation, 50% is legal costs, and legal -- lawyers are able to pay up to 50% of their 50% in referral fees to try and generate business. Now that is telling you something about how high legal fees are relative to the true cost of processing those claims. So the appropriate reform is to move legal fees towards the true cost of delivering that service.

However, a ban on referral fees, it has moved from possible to probable. Possible because if you went back two or three months in fact the wind was blowing slightly against it in as much as the Legal Services Bureau had come out against a ban on referral fees. Probable now because Jack Straw has taken the level of prominence of the issue up to a whole new level, and that changes the game somewhat.

I'm going to talk briefly about it from Admiral's point of view. Some of the language that's used in relation to referral fees is somewhat misguided. You get talk of selling details, invasions of privacy, and things like that, so we will talk a bit about the process; make it clear we don't sell customer data; make it clear also that, although it's not immaterial, it's actually a small proportion of our profits. And we do believe that in the event of a regulatory change it will be possible to at least partially mitigate the impact on our profits.

The process that takes place at Admiral is if a customer calls in and reports a claim that is not their fault and they feel they have an injury, or may have an injury, then we will recommend a third-party supplier, a specialist legal supplier. And if they take up their recommendation, and it's their option whether they do, we then will receive a referral fee. This referral fee accounts for around 9% of our total ancillary contribution, around 5.5% of our UK profits.

In terms of regulatory intervention, as I've said, the rational intervention would be a reduction in legal fees, particularly for small bodily injury claims. This would have an immediate impact on average cost, and probably on frequency as well, and would lead to a reduction in car insurance premiums.

The probable intervention is just a straightforward ban on referral fees. Our view is that, that in the short term would create some reduction in frequency as lawyers couldn't immediately respond to the change. But they would respond to the change by investing more and more in alternative lead generation activity, more TV ads, more posters, more deals with WHSmith, more people stopping you in the street, more texts, all that sort of stuff, to replace the volumes currently generated by referrals from the likes of insurers, breakdown companies, garages, and things like that.

Moreover, I think the current referrers would look to evolve alternative structures that help them participate in this structure, in this income, and partially mitigate their loss of income. An obvious example might be, for example, to set up your own in-house legal operation so that you capture the profit in your own legal operation rather than via referral fees.

The overall outcome of the ban of referral fees, in the absence of an associated reduction in legal costs, would be no material reduction in car insurance. And if, worst-case scenario, somehow it was possible to frame the legislation so that everyone was allowed to continue with referral fees apart from insurers, then you perversely, of course, would get an increase in car insurance premiums as a result as insurers seek to make up for the lost income.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, David. Time for me to look at the Admiral Group beyond the UK. For those of you who are not particularly familiar with our developments outside the UK, let me give you a brief review.

So, after 13 years of being just a UK business, in October 2006 we launched an insurance operation in Spain, called Balumba. We followed this about a year later with another insurance operation, this time in Germany, called AdmiralDirekt.

In May of 2008, we launched ConTe in Italy.

In March '09, we launched a price comparison business in Spain, Rastreator.

October 2009 saw the beginning of Elephant in Virginia in the US, and since then we've started trading in Maryland, and most recently in Illinois.

January 2010 was the start point for a price comparison business in France, Le Lynx, with a similar business in Italy, Chiarezza, starting in February of 2010.

December 23, last year, we launched L'Olivier, our insurance business in France.

And to round out the story, just after January 1, 2011, we sold our German insurance business and left the German market.

So today we are an active insurer in four countries outside the UK, and we have price comparison businesses in three of those countries.

What to make of all that? Well, firstly, our international expansion is based on a very simple premise; the Internet is an irresistible force, and eventually people in all these countries will routinely be buying their car insurance on the Internet. Car insurance is perfect for the Internet because you don't try it on, you don't kick it, taste it, smell it, etc. You don't really want intermediation, either.

All the markets we're in may not be Internet markets today, but eventually we believe they will be. Of course, within eventually, we're rooting for sooner rather than later.

Second, we have targeted large mature markets because of our belief in the changing nature of distribution, and the fact that all the major players currently in these markets have a channel conflict problem to overcome before they too can become Internet insurers. And channel conflict is our friend.

Sometimes I hear comments from traditional businesses in one of the countries we've entered into to the effect of consumers in my country will never move en-mass to the Internet. And here I am telling you what sounds like the opposite, the Internet is an irresistible force.

Well, it's actually possible that both statements are correct. In some of these markets, Internet sales today are less than 10% of the car park, so you might see in, say, 10 years that figure rising to 40%. Now that would mean that the majority of the people are still not using the Internet, but would also mean that four times as many people that use the Internet today will be using it. And given that these are huge markets, with a total of about 300 million vehicles, a move from 10% to 40% would be enormous.

Our goal, in all these places, with all our operations, is to build profitable, growing, sustainable businesses.

Focusing on the businesses that we've launched in the last few years, what binds them together is the low risk approach we've taken. Our normal method of operation is to build businesses from scratch rather than enter a market through acquisition. This isn't to say we'd never acquire a business, but thus far our way has been business creation.

When you create a business from scratch it does take a few years longer to establish it, but you know what you're getting along the way.

To limit our exposure in the early stages of development, all the insurance businesses have substantial reinsurance arrangements. In the past, we've shown you the details and results on each of these businesses. We think this has actually distracted you from the main message, which is that we are cautiously building our general competence and size outside the UK.

In addition, at the moment, we are strictly private car insurers, so we find ourselves giving very precise and valuable information to our competitors. As a result, from hereon we plan to show you the amalgamation of our efforts, separated for insurance and price comparison.

Our international businesses are still cumulatively unprofitable. In the first half of the year the costs were GBP6.4 million; slightly up from a loss of GBP5.8 million one year ago. This is not surprising since we added a new insurance operation in France just at the end of last year.

Looking at the insurance businesses, the growth over the years in these businesses has been substantial. Our premiums in the first half of '09 were GBP23 million. Please keep in mind that for '09 and 2010 all the figures actually include Germany, but from January 1, this went immediately to zero.

So premiums have gone from GBP23 million in H1 '09 to GBP34 million in the first half last year to GBP49 million in the first half this year; an increase of 115% on '09, and 43% on 2010.

Vehicles insured have gone from 100,000 at the end of '09 to 236,000 two years later; an increase of 136%.

The overall result from these insurance businesses is a loss of GBP3.2 million, and a combined ratio of 157%, which combines a loss of 97% and expense ratio of 60%.

If we now turn our attention to the three non-UK price comparison businesses, you'll see that the year-on-year quote growth is 150%, nearing 2 million quotes in the first half of 2011.

Although income is up substantially, so too are costs, and the loss grows from GBP1.7 million to GBP3.2 million. Please keep in mind that the oldest of these operations, Rastreator in Spain, is not yet 2.5 years old, with Le Lynx in France having traded for just 1.5 years, and Chiarezza only 16 months.

A quick look again at the highlights of the half year. A good move on profits, driven by big growth in policyholders and premium; a record dividend, some 90% of profits; and a stunning 63% return on capital.

So you've heard about the strategy, you've heard about the profits, the dividends, and the challenges that we faced in H1 2011. I'm going to close by making a link between these results and a film by the fantastic Italian director, Sergio Leone.

As most of you probably know, there were three films in his Man with No Name trilogy, and I think the Admiral half year is summed up by one of these movie titles. I suspect you'll think the same. But I'm going to leave it to you to choose which movie title to go with these results; the movies being A Fistful of Dollars; For a Few Dollars More; the Good, the Bad and the Ugly.

Now on your way out the door you're going to find a table with pictures of these three movies on it and a box next to it; pick the one you think best summarizes these results, drop it in the box, and we'll get back to you later with the consensus view.

Thank you, very much for your attention here this morning. We're now happy to try and answer your questions, Greig.

Questions And Answers

Operator

(Operator Instructions)

Q - Greig Paterson

Good morning, Greig Paterson, KBW. I have three questions. One is, just in terms of guidance, in terms when you set up your premium, you usually set up 35% to 40% of next year's gross written premiums in terms of a statute capital requirement, I was just wondering if that statistic is still valid going forward.

The second question is I wonder if you could give us the split new business recurring, so your renewal business, in this half of the year versus the full year last year.

And the third one is, I do appreciate that as ancillaries change your ancillary policy changes -- sorry, as growth rate changes, but the growth rate in the first half was pretty much the same as last year, yet ancillaries still went up. I wonder if you could give us some flavor for where you gained some -- why that was.

A - Kevin Chidwick {BIO 15100612 <GO>}

I'll start with the first one, and maybe the last one. In terms of solvency guidance, yes, you're quite right. It's still around about one-third or so of premiums needed for solvency for us on our retained balance. And we do build solvency as we go, so we're looking at the half-year point this year to anticipate what we might need for the next 12 months and lock away some of that capital now for that growth.

But, of course, it depends on the actual level of growth we really achieve that determines what solvency we need. So what we've seen in the last 12 months/18 months is we've grown a bit faster than we would have anticipated before and, therefore, the solvency requirement's gone up a little bit relative to what we expected. But you're quite right, we are building solvency for 2012 in much the same way as we have done in the past. But we anticipate growing more slowly in 2012 than we're currently growing right now, which is David's point that he made earlier.

In terms of the new business renewal splits, I don't know the exact split actually. Do you know the number for the first half of this year, I'm not quite sure I've got it in my head? But you can do the sum based on 33% growth. So there'll be more bias obviously towards new business than there was in the past but I don't know the exact number.

And in terms of ancillary revenues, your point is the number's grown a little bit; it has, it's gone up by GBP1 or so. But it oscillates around the number. So it's lumpy in terms of delivery of the ancillary revenues, depending on the component parts and the period of the year, so there's not a trend that I want to pick out and talk about, other than to say that it's broadly flat year on year. And that's why drew to the conclusion, drew the line towards GBP75.

Q - Paul Goodhind {BIO 16200839 <GO>}

It's Paul Goodhind from Redburn Partners. Firstly, can you just give the average written and average earned premium to policy? You've given that figure in the past. What was that for the first half?

Secondly, could you just summarize, now that you've moved your ultimate for '09 and '10, what is the claim inflation in total that you have now assumed for '09, '10, and '11? I think you said it was 10% for 2010, and I think I heard 8% or 9% for 2011, but if you could just clarify that, and give the 2009 figure as well for claim inflation, that would be good.

And thirdly, you mentioned some operational slippage given the strong growth, can you just give a bit of flavor as to what sort of areas you're referring to there, and what you're doing to address that slippage?

A - David Stevens {BIO 6807391 <GO>}

Okay, so let's take the second one first, partly because I'm not sure in terms of what disclosure we're doing on the first one. What I said was that if the actuarial best estimates for 2009, '10, and '11 prove to be correct, that the level of overall claim inflation in 2010 will be of the order of 10%, and in 2011 it'll be late single-digits.

In terms of actually trying to diagnose what leads to a number that is somewhat higher than the general underlying level of 5% or 6%, it's actually really, really difficult to unpick and attributes to different causes. You've got a large degree of randomness in terms of distribution of big claims, so you don't actually know even, if it's just -- an element of it may be random.

I think what we're saying is that this is a little bit higher than we've historically experienced, and it wouldn't be implausible if some of it could be attributable to operational slippage in the sense that you've brought through a lot of new claims people with, therefore, essentially less experience, you've got a lot of new people in the other areas of the business, like CS and sales, and there are elements of delivery in those areas which are relevant to outcomes in terms of loss ratios and stuff like that.

So what we can't do is we can't sit here and say what it is, is the long run average is 6%, and you've got to take it up to 6.8% because of this mix effect, and 7.9% because of the randomness, and 8.2% because of operational slippage. All you can say is, look, this is a little bit worse than we've historically experienced and some of it may be due to strain caused by very rapid growth.

Q - Paul Goodhind {BIO 16200839 <GO>}

The average earned and written, given the number you've got?[ph]

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, as David said, I think he quite rightly picked up, Paul, the claims inflation is around 10% for '10, and around 8% for '11, which I think what you said in your presentation. And that's our estimate of what those numbers look like at the moment, but they're still relatively young years so those are just estimates and they could well change going forward.

And that claims inflation in '10, as you can see from the projected ultimates, has been broadly matched by the improvements in earned premium in '10. But in '11 it looks as if our earned premium is moving faster than that, so we're seeing an improvement going up by something in the early teens, which is why you see the improvement in projected ultimate. But I caveat that quite heavily with the fact that these are projected ultimates in relatively young years.

A - David Stevens {BIO 6807391 <GO>}

And you can work them in the written premium in terms of 2011 versus 2010 is of the order of early 20%?

Q - Paul Goodhind {BIO 16200839 <GO>}

And the earnings up (inaudible).

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, there or thereabouts, yes.

A - David Stevens {BIO 6807391 <GO>}

Sorry, Paul, that earned, by the way, is first half 2011 versus whole of 2010. First half versus first half is a slightly different number and would be somewhat higher, more closer to the written.

Q - Paul Goodhind {BIO 16200839 <GO>}

The written is year on year in terms of that level[ph]?

A - David Stevens {BIO 6807391 <GO>}

Yes.

Q - Tony Silverman {BIO 2162363 <GO>}

Tony Silverman, Standard & Poor's Equity Research. I just wonder if you could talk a bit more about the dynamics of the profit commission, if you like. And I know it's changed a little bit over the last year or two, but what proportion of the profit commission, for example, for the year 2010 underwriting year have we probably had by now? If that's not a fair question then how should we look at it?

And the other question would be, just looking at slide 47 with those loss ratios, I might be looking at this wrongly, but 2009 and '10, '10 has gone down a bit and '09 has gone up just one point. I might have expected to see a bigger deterioration in those two years given some of the comments we've had.

A - Kevin Chidwick {BIO 15100612 <GO>}

Which slide?

Q - Tony Silverman {BIO 2162363 <GO>}

47 in the pack, the one with the developments by underwriting year. I've got that as slide 49 -- I've got that as slide 46 and I was thinking slide 47. So I was expecting to see the 2009 bars -- sorry, the final bar, the dark color, for 2009 and '10, I was expecting to see it more substantially up on the previous bar.

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, I think the point here is that Admiral's always reserved quite conservatively with a view to making reserve ratios with projected ultimates turn out as expected.

So the movement that we've talked about, David talked about extensively in his presentation, is the movement in those projected ultimates. And there is some capacity for those ultimates to move quite substantially without having us have to change our book-to-ratios. What we're doing is adjusting the book ratio based on our calibration of how we think they'll move going forward, so they don't move in line with the movement in the projected ultimates.

And the answer to your question about '10, as you can see from -- we've never disclosed explicitly the absolute levels of reserve stock we have in each underwriting year, but you can get quite close to it by looking at this slide on whatever page it is, page 47 versus the projected ultimates for the year. And you'll see that '10 still has some way to go in terms of a bit more release, and '11 obviously substantially so.

Q - Tony Silverman {BIO 2162363 <GO>}

Okay, fair enough. They've not really deteriorated on that graph, I think? They're not actually -- you may have not got the reserve releases you would normally expect, but it would be wrong to say they really deteriorated on the estimate there?

A - David Stevens {BIO 6807391 <GO>}

Well, in terms of books, yes, that's right.

Q - Tony Silverman {BIO 2162363 <GO>}

And on profit commission, how should we look at the total -- is it fair to ask if you've had the bulk of your profit commission from the 2010 year?

A - David Stevens {BIO 6807391 <GO>}

Well, that would depend on the reserve releases now. Also, '10 of course is still earning through the second half of '11 for that business we wrote in the second half of last year. So there will be some profit commissions emerging in the second half of this year for the '10 year as the rest of the premiums earned, but the rest of it will depend on what reserve releases we're able to make from '10, depending on where '10 ultimately finishes.

And there is some headroom for a bit more of that, but it really depends, as we talked about it before, on that relatively young year how it ultimately turns out. Because the profit commissions are directly linked to the reserve releases. If we make a release from a prior year now, we book that reserve release in our accounts, but we also get the profit commissions from the reinsurance proportions for that same year.

Q - Tony Silverman {BIO 2162363 <GO>}

Yes, okay, thank you very much.

Operator

(Operator Instructions)

Q - Unidentified Participant

(inaudible) Berenbergh[ph]. Three questions, please. Firstly, we've seen insurers recently start to talk about using telematics more and more, I was wondering, first of all, whether that's something -- somewhere -- whether you might go there? And secondly, just your general thoughts on that and how it might work with price comparison sites, for example, and whether it removes the attraction of those to the customer.

Secondly, on the international businesses, in the past you've always split out the quite detailed performance of each individual country and I'm just wondering whether we should not expect to see that at all anymore and why you've stopped showing that at this point.

Thirdly, on your relative gap to the market, I think in the past you said that as you grow market share it gives you more data on which to better be able to do your pricing and, therefore, under normal conditions or past growth you might have expected your gap to increase. I appreciate your comments this morning were more about the extremely high growth you're seeing at the moment, and that makes it much more difficult and that, that is not necessarily true; going forwards, from your current market share, under a normal growth outlook, I'm wondering what your view there is now in terms of whether that gap should increase or decrease. Thanks.

A - David Stevens {BIO 6807391 <GO>}

On telematics, you've got a product that at the moment is a niche product for high premium young drivers, primarily. And in the UK, there are three or four active brands, some of which are dedicated telematic operations, and some of which are testing operations by some of the big players. It's probably about somewhere between 75,000 and 100,000 real telematic vehicles insured out there at the moment.

We've got a test running, which has been running for a while, and we've done various permutations on the test, which we're using to learn about different product options and about the underwriting implications of telematics. It's a very, very small number; it was 250 for the pilot, it's now into thousands rather than hundreds. But it's not material to our operation. It's a piece of R&D, rather than a genuine consumer proposition at the moment.

I think it will be an important factor going forward, particularly for the higher premium parts of the market, and we will want to have some sort of presence in that sector.

I don't think it has an adverse impact on price comparison sites because, if you look at where the sales are by and large happening, specialist operations that are doing box offers, they're selling an awful lot of -- an awfully large proportion of their volume is coming through price comparison sites. There's nothing particularly about telematics and their current iterations that stops those products featuring on price comparison sites.

And the third bit was?

Q - Unidentified Participant

Relative gap to the market.

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, I think we've taken advantage of a particularly discontinuities moment in the market where a moment where we could put a lot of volume on at relatively low cost to take the business from a GBP2 million business to a GBP3 million business in relatively short order, and I think ultimately that will pay off in terms of scale because that gives you better data. But that's -- any benefit of that, a, takes time to come through; and, b, is probably washed out by the new business renewal effect, the handling growth effect, the lower relative price increase effect.

A - Henry Engelhardt {BIO 3022947 <GO>}

And as for the international, yes, you should expect to see the results, as we've just shown them, going forward. As I said, there are two reasons for that; one is that they -- if we itemize them by country they do get very much lost because they're just all -- individually they're so small, so we like to show them -- the whole energy behind the international expansion is -- what it's doing; in this case it's growing; and then also, we do feel, because we're so specific just as a car insurer, we do give very valuable information away to our competitors by isolating those results. So, combining those two reasons, we thought it better to amalgamate.

Q - James Pearce {BIO 16758460 <GO>}

James Pearce from UBS. Couple of things. First of all, could you comment on what you think the effect could be of another recession, given the way your book has changed since the last one?

Second, you talked about international diversification, have you any thoughts about product diversification within the UK?

A - Henry Engelhardt {BIO 3022947 <GO>}

Recession has goods and bads. On the good side is people shop more, and more stimulus to shopping is a good thing, more price comparison business, that sort of thing. And savings of small amounts can mean a lot, so you can get people switching for smaller amounts as well because any savings to them is valuable. And as most efficient player, or one of the most efficient players, in the market that works to our advantage.

The other side is you get more fraud. You get more -- and fraud comes in many forms. It comes in people lying on the application -- shaving the truth, let's put it that way, shaving the truth on the application to try and get a lower rate; it comes to creating claims that never were; it comes to exaggerating injuries. It comes in all shapes; it comes in all parts of the business. So a little bit of a plus, and certainly something you have to be very careful of. And you do get more bad debts and you'll get more uninsured motorists.

So, by and large, a good economy would probably be better for car insurers. But of all products going, very few of them have a situation where the police follow you around and try and make sure you bought it. If you don't buy napkins at the store, they don't stop you and arrest you; but if you don't buy car insurance, gotcha. So bit of a mix.

As we've said in the past, we are looking closely at home insurance in the UK. It's not -- we think one of the things that has helped us to be successful over time has been the focus on car insurance. All we really think about is car insurance; makes us very boring at cocktail parties, but pretty good at car insurance. And whereas many of our competitors, car insurance is just one of the many things they do.

We've look at home insurance in the past and very different structure to that business, and very different pricing in that business, and economics, smaller premiums, it's not compulsory, all sorts of things. But things have changed, especially with the growth and development of price comparison, which helps to keep the acquisition cost stable and not excessive, and that gives us some belief that it's an interesting market to get into.

In addition, our own policyholder base has grown so much because there's always the belief that we can cross-sell between motor and home. And when you're small and you cross-sell you say, so what; but with around 3 million policyholders, cross-selling could be very valuable to us. So we're looking at that one.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean with Autonomous. Can you give us a sense of what the claims' ratio on new versus renewal business is because as you slow the growth I think the gap between those two could play to you?

Secondly, could you give us some sort of estimate of how you see price increases this time next year, year on year, versus how you see claims' inflation? Do you think prices will be still above the level of claims' inflation?

And thirdly, on referral fees, if they are banned, is there any legislative initiative currently for banning them other than Jack Straw jumping up and down and then suddenly getting drowned by other slightly more significant matters in the news? And would there be a dislocatory effect, i.e., if they were banned on, say, January 1, yes, you could build alternative revenue sources but is there a period where you are just basically down 6% on profits?

A - David Stevens {BIO 6807391 <GO>}

On pricing, I think in saying that we expect the second half to have a relatively low level of premium inflation, I think we're saying we expect a period of very rapid inflation in the market to be coming towards an end. And what you typically find after a period of very rapid inflation is pretty flat premium changes, which fail to keep up with claim inflation.

Quite when that point happens, because, as I said, we would have said six months ago that that point had probably been reached, and maybe we're being a little bit pessimistic again, but it is -- in terms of cyclical patterns that point will arrive at some point in the not-too-distant future where the market fails to keep up with claims' inflation.

And the second question was?

Q - Andrew Crean {BIO 16513202 <GO>}

That was the second question. Renewal rates[ph].

A - David Stevens {BIO 6807391 <GO>}

Well, they typically, historically, tend to be low to middle double-digit better result on renewal on loss ratio than new business.

Q - Andrew Crean {BIO 16513202 <GO>}

(Inaudible)

A - David Stevens {BIO 6807391 <GO>}

Incentive points. (inaudible). Referral fees, Jack Straw has put forward a bill for debate in Parliament, it's called a 10-minute bill or something, that comes up in September, which doesn't necessarily result in legislation but is part of a general momentum towards legislation. The balance of probability is that, that legislation will take a while, and that the changes will come in with some lag, and that there will be quite a decent amount of warning of when it's going to happen, and exactly how the change is defined, and how the ban is defined, and, therefore, what the appropriate response is.

That's not to say that it's impossible that something could happen very quickly, in which case, we couldn't wave a magic wand and necessarily replace all the 6%, or necessarily any of it, if we had no warning at all; if it happened tomorrow.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Andrew Broadfield from Barclays Capital. A couple of questions; one on scale. The benefit of growth, of course you say you've grown and that your expense ratio has the potential to come down, but I'm just wondering, on the operational slippage, and also potentially on the telematics issue, one of the great benefits you had was being built for purpose. Telematics, I guess, there's new guys coming in who are built for telematics purpose and you guys won't be, do you see that there's potentially -- you become the next Aviva? Be it, it might take 100 years to get there.

But in terms of the slowness in which you potentially adapt to that new business structure, and also around the slip operational slippage, is that a consequence of growth or scale, i.e., it's just a lot harder to manage a very big business than it is a small business? So that's the first question on scale.

The question on reserve releases, you've talked, as you've mentioned for some time, about reducing the likelihood of big, big reserve releases. The mechanical consequence of that is you recognize your profits sooner, including profit commission as well, so effectively we've been through a period potentially of accelerating profit recognition in terms of just the timing on which you recognize those profits. Do you think about the profitability of the Group in that context, i.e., perhaps the profitability is growing in line with the top line but actually the core profitability may, in fact, if we were to unwind it and do it on an annual basis, perhaps hasn't been quite so strong?

And then the third question is around the referral fees, actually, and the other part of it, which is around the changes to the claims process that's being proposed, and I think was supported by Kenneth Clarke just recently, which should, in theory, help reduce the claims costs in the industry as changes to the shifting of legal expenses and how that's -- how the compensation process works.

Do you see that coming through? Do you see that being necessary to see how that devolves before the referral fee issue's concluded, i.e., I think the point you make is solving the core is not the symptom? That would be solving the core, and do we have to see that core's process evolve before we see a conclusion on the referral fees? I'm not sure if that last bit was clear, but if not I'll try it again in fewer words and perhaps ask --

A - Kevin Chidwick {BIO 15100612 <GO>}

Shall I do the referral fee bit and the telematic bit, and do you want -- who's going to do the scale?

Okay, let's start with telematics. If you look at the markets where telematics is really big, it's the US and Italy. And the people that are really making the difference in those markets are two very big incumbents, Progressive and Unipol, and it's not clear that necessarily telematics necessarily is going to be dominated by dedicated start ups in the long run.

To the extent that it becomes important, and it's not 100% clear how important it will become, assuming it becomes important, it'll be a question of how well you implement. Because this is not, gosh, let's do telematics; that really makes the world suddenly much easier. If you look at Aviva, if you look at RSA, both of whom, obviously much more high profile from Aviva, have had telematic products and they haven't made a material difference, or they've had a negative impact, you've got to just do it correctly.

And the issue will be are we able to do it correctly? Are we able to find the right way of doing it? And I think that relates a lot to Henry's point about focus and a car insurance operation that understands what key to car insurance and trying to get it exactly right. And I think the culture that underlies Progressive, that makes them the first mover and the best mover in the US on this, that's the sort of cultural you're looking for. It's not an issue whether you are old, or new, what your system is, and all that sort of stuff.

On referral fees and Kenneth Clarke's changes, we did an exercise; there are things that are good and there are things that are bad about the changes. But, actually, it's all marginal. And the exercise we did, I think, said it was going to make -- we're going to be GBP2 million richer at the end of it, which is obviously a rounding error. So I'm afraid, although on balance those changes are positive, they're not hugely material in our view.

And you have, countervailing that, an interesting initiative that took place in April 2010, which was the introduction of the MoJ portal, Ministry of Justice portal, and one of the things that underlies that portal is a change in the payment structure to lawyers. So it hasn't actually changed the amount of money they get, but it has changed the timing. And, historically, lawyers used to get the money at the end and now they get a material chunk, about one-third -- one third to one-quarter during the case[ph], at the beginning, and I do worry that that might have an adverse impact because you're making legal activity in car insurance, say, a more cash flow positive endeavor, which is a shame.

Does that cover everything on those two, apart from the scale, or was there anything else on those?

Q - Andrew Broadfield {BIO 7273415 <GO>}

Yes, sorry, just on the scale and the slippage part, I don't know whether you were going to come onto that, but just about whether being big and managing a big company is part of the reason why you put the slip -- or potentially had slippage, if that's one of the reasons, rather than being just the fact that you're growing, if that makes sense. The difference between being big or growing as an impediment.

A - Kevin Chidwick {BIO 15100612 <GO>}

I think they're both problems. I think we have a track record of managing bigness successfully. It doesn't get easier as it gets bigger. I think what we've got here is particularly the challenges of managing going from medium sizeness to bigness very, very rapidly, and that's a different set. You can't immediately create experience, and that's key in some areas.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Again, the final bit was just on that profit recognition, speed at which you're recognizing profits, because it is sooner now than it was a few years ago, and that concertina effect does mean that you're going to (multiple speakers).

A - Kevin Chidwick {BIO 15100612 <GO>}

It's a deliberate step to try and maintain that underlying block of stock of reserve of profit from prior years at a consistent type of level. So it's not that we're pulling a lot of that forward now that we weren't doing before; it's just that more of it's in profit conditions now than was in reserves.

And if you look at -- I refer you back to page 23 of this pack, then I think that really answers the core question you were putting, I think, Andy, which is that actually we're through a point of the cycle now where, with Admiral growing, even with growing the level they're growing at, the underlying profitability of the book we're writing is actually somewhat better than it was a couple of years ago. And that will be ultimately flow through in the results, if we don't see any adverse changes in our projected ultimate loss ratios.

But both the loss ratio and the expense ratio in recent periods are getting better, notwithstanding all the comments we've had this morning about other developments.

Q - Colin Simpson {BIO 15894636 <GO>}

This 2010 market net earned premium of GBP6.7 billion, how does it compare with 2009? I'm just looking for a bit of comfort on all these price increased statistics that we're getting.

And I guess the second question is on -- I notice you sold an[ph] installment PPI, is that all clean from the FSA's perspective? Do we have to worry about that in any shape or form relative to what the banks have been through?

A - Kevin Chidwick {BIO 15100612 <GO>}

The installment PPI is that, in the event that you pay monthly, if you get made redundant or lose your job through illness, we'll pick up the car insurance premiums.

That is a very different world from the world of a number of thousand pound up-sum payments on a mortgage product or a loan product which was particularly the source of regulatory concern. And I believe that there's a specific exemption from the restrictions on PPI that's allowing our own product, and other people in the car insurance context, to continue to offer it, which is fortunate; having offered it for a number of years, a bit of a shame if it was no longer available at a time of growing unemployment.

I didn't fully hear the first question, sorry.

Q - Colin Simpson {BIO 15894636 <GO>}

You've given a market net earned premium of GBP6.7 billion, how does it compare year on year?

A - Kevin Chidwick {BIO 15100612 <GO>}

It's hard to do comparisons, but I think what you're asking is what's the underlying level of inflation in the market, and it does quite difficult to unwind. But the work that we've done, in association with the Naturelle[ph] firm, to try and unpick it suggests that the earned premium increase between '09 and '10 is of the order of 5% or 6%.

Q - Sachin Gupta {BIO 16266630 <GO>}

Sachin Gupta, Nomura. At the key one stage you said that you expected to meet consensus, apologies if I missed it somewhere here, but are you going to make a similar statement again?

Secondly, you increased rates more so than the market, do you intend to do that next year as well?

And the final thing is can you give us a quick update on the US operations, in terms of numbers, states, and prospects?

A - Henry Engelhardt {BIO 3022947 <GO>}

We intend to release a similar statement for our IMS, which comes after the Third Quarter, in terms of where we would be in relation to consensus.

The US, we've added Illinois on early July; we added Maryland from the first of the year; and we are looking at adding further states possibly this year, but also more likely next year. And the --

Q - Sachin Gupta {BIO 16266630 <GO>}

And in terms of (inaudible), this time last year (inaudible question).

A - David Stevens {BIO 6807391 <GO>}

We go through a constant process of evaluating the optimal level of rate increase relative to the market. And with the very high level growth fed through to them year on year that we were experiencing in the first half, we felt that although in pure profit maximizing terms it might make sense to try and grow farther -- faster than that, it was prudential to actually grow faster than market and not go with that rate of growth that would have happened had we just matched price increases in the market.

Now, going forward, that's the calculation that we do on a continual basis, and whether or not we think it makes sense to get more competitive or less competitive will a lot depend on how the claims evolve and how other people's prices evolve.

Q - Adrienne Lim {BIO 16537674 <GO>}

A very quick question on the competitiveness of the UK market. You mentioned Aviva and Zurich in your presentation, just a little bit more color on maybe who you see the real threats are, whether -- I think you have mentioned Tesco in the past. And also, just can you comment a bit on how RBSI is behaving and where you see that going forward in the future? Thanks.

A - David Stevens {BIO 6807391 <GO>}

I think RBSI is a key factor in the evolution of the market. Their willingness to shed volume has been key in the ability of the market to put the price increase through, and they continue to shed volume during the first half of 2011.

Obviously -- well, their 2011 results are exhibiting a level of profitability substantially better than 2010, as you might expect. And our expectation would be that at some point they'll want to stop shrinking, and when that happens that'll be part of the, quote, appetite returning.

Aviva, yes, growing rapidly and back on price comparisons, although in truth their prices have always been on price comparisons via brokers and so that isn't that material a change, but it's just a reflection of appetite.

Tesco, early days; not had a dramatic impact yet, but obviously capable of investing significantly in this sector, if they were to choose to. So those are threats.

Some of the biggest threats historically have always actually been about the least competent players that come in with rates that are unsustainable, write a lot of business, and then blow up and then get replaced by the next person that does that. And, unfortunately, one can't name names in that context, but there have been examples of that, which have disrupted the market, and that's always a threat.

Q - Marcus Barnard {BIO 2103471 <GO>}

You say your market share is about 11%, or 2.8 million vehicles, I just wonder if you could give us an idea of what your addressable market share is if you exclude the commercial fleet vehicles, the affinity business, and the young and convicted drivers that perhaps you wouldn't want to go for.

And also, as a follow onto that, I'm guessing your addressable market's something like 12 to 14 million policyholders, of which you've got about 2.8 million, I'm guessing, but I'd like you to comment on that, I'm just wondering what percentage of that 12 to 14 million have you insured in the past but have not renewed?

A - David Stevens {BIO 6807391 <GO>}

One of the key questions we're often asked is what's the market share top, how big can we get, and that's in a sense an element of what you're asking. First of all, as I say, the 11% is share of the private motor market; it excludes commercial risks and is only about our private market.

We wouldn't exclude young and convicted, some of our favorite customers are young with convictions; some of our least favorite customers are young with convictions as well.

It's -- there's worthwhile people to be had in any segment.

Well, what I've said in the past in answer to this question is, if we manage to maintain our superior competence versus the competition, we can continue to grow share and maintain margin. If we fail to maintain our superior competence, or if it's -- and if it erodes, then we can only gain share by squeezing margin, and that comes to an end at a certain point, or becomes irrational.

So whether we top out at 12%, 18%, 25%, or 32%, it's not about an addressable market or this sort of this people they do and those people they don't; it's about the ability to just be better at car insurance and stay better at car insurance than the competition.

Q - Marcus Barnard {BIO 2103471 <GO>}

Can you comment on the non-renewal?

A - David Stevens {BIO 6807391 <GO>}

Well, implicit in that is an idea that in fact if someone's been a customer of ours they cease to be potentially a future customer of ours.

What actually happens is people come into our area of competitiveness and go out of our area of competitiveness, lapse, and then potentially re-appear a year later. Because you're moving house, you're changing car, you're having a conviction, you're adding a named driver, you're getting older, which happens to us all, and all the time you're changing your profile, you're a different risk.

And there's nothing about the people that leave us that leads them to not want to come back to us. Essentially, what happens is a year later they go on a price comparison site and if now Admiral has become the cheapest they come back to us. So there's no, oh gosh, have they wasted their way through a big chunk of the market that will never come back to them.

Q - Unidentified Participant

A couple of thoughts[ph]. Do you -- what do you think the market combined ratio is on the current written basis? Because if you're saying that prices are going to slow that suggests do you actually think the market is now profitable on a sort of real time written basis?

And the other thing is do you have any subjective comments around about the E&Y estimates, because a lot of your results is now mechanical process based around the what E&Y tell you? What's your view of the E&Y best estimates?

A - David Stevens {BIO 6807391 <GO>}

In terms of the market, I think what we'd say is the strong probability is that there are enough players who consider themselves to be writing profitable business for that to be a break on price increases. Whether the overall average is necessarily delivering a huge return is open to question, but there are clearly some players who want to grow and that has a material impact.

In terms of commenting on the actuarial projections, I think that Ernst & Young -- I really haven't got any comment to make, except to say that I think that people should be aware the actuarial projections are not able to give you a right number with a very limited range of possible subsequent movements, and that Ernst & Young have done a reasonable job at giving what proved to be within a reasonable range in the past.

Q - Greig Paterson

Last year you provided -- the last period March you provided the year-on-year increase in the base rate at the beginning of the period and at the end of the period and the average, because it peaked in the end of the Second Quarter I wonder if you can give us the year on year increase on your base rate at the beginning of the period, the middle, and the end, so we can work out an average.

And the second thing is, in terms of these prior year developments, you remember last year you had a slide with that in, but I'd like a point in the middle as well.

The other point is that, in terms of these Ernst & Young actuaries coming back and saying, right, we want to book higher bodily injury claim size in our ultimates, is that a function of them having actually experienced a claim that is higher? Or is it a combination of all right we've got some higher claims in this particular accident year, but we also now are going to up the incurred but reported element at the end of --?

I'm sure, if I understand it, there's an assumption inherit in there, there's still some flex, or is it suddenly we've had claims, that's developed, end of story, '09 or '07's[ph] never going to move any more here?

A - David Stevens {BIO 6807391 <GO>}

We're talking about medium sized and large bodily injury claims. These claims won't settle for four, five, six, seven years, so you're not seeing the movements in 2009/2010 being a function of an actual done deal settled claim. You're seeing a pattern whereby those claims track towards a certain outcome, and that tracking is tracking a little bit higher than historically has been normal and so that leads to a change in the actuarial best estimates.

It's only four or five years down the line -- obviously over time you get closer and closer to reality, but it's only five or six years down the line that you know for sure where you're at.

And the price thing, well, what I'd say is we said we increased our prices 26% in 2010, and we've increased them, I said, low double-digits, I think 11%, in the first half --

Q - Greig Paterson

Is that a comparable stat?

A - David Stevens {BIO 6807391 <GO>}

Yes, well, they're comparable stats. And I would say if you want to try and work out within that, our rates were increased for a reasonably even spread across the quarters in 2010, and reasonably equal between quarter 1 and quarter 2.

Q - Greig Paterson

But it does seem that just the increase in (inaudible).

A - Kevin Chidwick {BIO 15100612 <GO>}

From January to June.

Q - Greig Paterson

Yes.

A - David Stevens {BIO 6807391 <GO>}

Year on year.

A - Kevin Chidwick {BIO 15100612 <GO>}

And the reserve releases point, Greig, is in -- if you look at note 14B of the RNS you can see it's spread out there in exactly the same way as we put on the slide last time round.

A - Henry Engelhardt {BIO 3022947 <GO>}

We haven't any questions from the people calling in? Any other questions here?

Q - Unidentified Participant

Sorry, you may not be able to answer, but just one follow up on my earlier question, which I should have asked at the time on international. But I appreciate, without giving away any information that you wouldn't want to give to the competition, are you able to comment at all just very, very briefly on the insurance operations in particular.

I know you've had a couple of comments on the US already, but perhaps on the European insurance operations in terms of how they're progressing, whether the outlook has changed at all.

A - Henry Engelhardt {BIO 3022947 <GO>}

It is very similar to what we said at March; the Spanish market is very difficult, the recession there is reducing the number of vehicles, which is very unusual, and people are trading down in cover. So you have the same number of insurers chasing fewer vehicles and less premium, so it's very competitive. And there's not a lot of pain in that market; its run rate is probably somewhere around 100, so it's got some pain to happen before you see some price increases.

The Italian market continues to be pretty good with price increases going on and big growth in price comparison in Italy, for which we are well positioned.

We've just gotten beyond the point of knowing all our customers by their first name in France, so there's not a lot I can tell you about that market.

And the US is going better in terms of volume due to being in more states. And it is a very, very different market in the US because it's not unlimited liability, it's limited liability, and it's actually a damage market, whereas here 10% of our claims produce 60%/65% of the costs, something around there.

In the US, it's kind of the opposite; the bodily injury claims produce 25% or 30% of the costs and so it's a damage market, a very different market. And it's much shorter tail and the loss ratios there continue to be good. Scale is important for us there.

Right, well, thank you all very much for your attention and coming this morning. Don't forget, pick your movie, drop it in the box; Louise will get back to you. Thanks very much.