Y 2019 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Andrew John Crean
- Dominic O'Mahony
- Edward Morris
- Greig N. Paterson
- Ivan Bokhmat
- Jonathan Denham
- Kamran Hossain
- Kevin Ryan
- Oliver Steel
- Paul Walsh
- Sami Taipalus

Presentation

Penny James {BIO 15157212 <GO>}

Well, good morning, everyone. And first I just would like to thank all over (inaudible) letting us their fabulous facility this morning. So thank you for that. And thanks for joining us today.

Looking back at 2019, I have to say, I'm really pleased with what we've achieved both financially and operationally. We've improved the quality of our earnings. We've delivered an operating profit of GBP 547 million and a return on tangible equity of 20.8%, which I think demonstrates the resilience of the business model. As a result we're able to pay final dividend of 14.4 pence and a total dividend for the year growing by 2.9%. And we're launching our GBP150 million buyback.

From an operational perspective, the technology upgrades that we've been working towards are injecting real momentum into the transformation now. And we've traded effectively, navigating pretty difficult market conditions. But I think 2019 achievements are a real testament to the quality and the focus of our people as well as to the strength diversification of the business model.

Now one of this year's highlights to me was our Capital Markets Day in Doncaster, where we launched our new strategy, vision and purpose. And it has customers at its very heart. We want to create a world where insurance is personal, is inclusive and is a source for good, where we help people carry on with their lives, giving them peace of mind now and in the future.

Now later I will tell you a bit about what we've achieved since November and some of our plans for 2020. But let me hand over to Tim to give you a summary of the financial progress in 2019. Tim, over to you.

Tim Harris {BIO 16707496 <GO>}

Thank you, Penny, and good morning, everybody. 2019 was an important year for the group. As it progressed along its journey of transformation, whilst also delivering a good set of results in a difficult motor market. I arrived in the business in early October, and in November, Penny and I set our strategy and new financial targets at the Capital Markets Day. I'm now six months in and I'm more convinced than ever of the opportunities for this business.

So, before I go through the results in detail, I'll summarize the highlights. First, we continue to grow albeit modestly achieving 1.4% policy count growth across our direct own brands. Second, we held our focus on costs and delivered against our GBP700 million cost target with operating expenses of GBP694 million. Third, we delivered our combined operating ratio targets adjusting for weather and the changed in the Ogden discount rates our ratio was 93.5%. Fourth, we did what we said at the Capital Markets Day and grew the current year contribution to profit to 39%, making progress towards our 50% target more than offsetting expected headwinds in 2019. And finally, we continue to generate strong capital returns with a total return of GBP447 million, reflecting growth in the regular dividend and the GBP150 million share buyback. The solvency coverage ratio after these is a strong 165%.

Turning to the summary results on Slide 7, where we have the key group line items. Moving down the table on the left, written premiums were broadly flat reflecting underwriting discipline and the run-off of some of our partnerships. Underwriting result was GBP232 million, 11% lower than 2018, with the impact of benign weather in 2019 more than offset by lower reserve releases which were in part related to the change in the Ogden discount rate. In line with our expectations in instalment and other income was about GBP10 million lower than 2018 due to non-repeats of the gain on the sale of our Bristol office.

We also saw lower gains in our investment result, which brings us to an operating profit of GBP547 million. In 2019, we incurred GBP11 million, of the GBP60 million restructuring costs outlined at the Capital Markets Day. We expect to incur the remainder in 2020. All of this helped deliver a return on tangible equity of 20.8% well ahead of our 15% hurdle rate.

Let's look at the key trading ratios at a group level before we get into the divisional results. At the Capital Markets Day, I talked about our plan to improve the proportion of our earnings from the current year. Here you can see the progress made in 2019. The group current year attritional loss ratio improved by one point, supported by reductions across all segments, demonstrating the benefits of our focus on underwriting discipline and claims management. Weather was very benign in 2019 with major weather events of just GBP6 million compared with GBP75 million in 2018. As expected prior year releases were lower, but still significant, and were concentrated towards more recent accident years.

The expense ratio was flat as lower costs were offset by lower earned premiums, and the commission ratio increased a little due to profit share payments and higher price comparison website volumes. Overall, the combined operating ratio was strong at 92.2%.

On Slide 9, you can see we have continued to deliver modest growth in our direct own-brand policy count, up 1.4% in 2019. Motor and home own brands were both down a little in 2019, but there were some positive signs towards the end of the year with home policy count stabilizing and motor returning to growth.

Green Flag move its policy count by an impressive 14% and passed the 1 million milestone in Q3 as it continued to grow market share. Commercial own brands grew policies by 5%. Direct Line's business continued to grow as it launched further propositions on its new digital platform. Outside of Direct, lower in-force policies were mainly driven by partner volumes continuing to reduce and our focus on maintaining margins in NIG.

2019 was a tough year for the UK motor market, and against this backdrop, we continue to focus on underwriting discipline, and I'm encouraged with the performance. Starting on the left side of the slide, we took pricing actions to achieve our target loss ratio with risk-adjusted prices increasing 3.1%. This resulted in a slight reduction in policy count. But as you've seen growth returned in H2 as market pressures eased a little. Risk mix reduced by 3.7% due to developments in pricing and underwriting including enhancements to our capability to spot and prevent application fraud at the point of quotes.

Moving across to the right, our disciplined pricing actions meant we delivered a broadly stable current year loss ratio of 81.2%. Prior year releases were more than GBP100 million lower than 2018 at a GBP181 million, but still significant and with around half of the swing driven by the Ogden rate changes in 2018 and 2019. Our commission ratio was up, reflecting the higher price comparison website volumes and associated commission rates.

Overall, motor delivered GBP303 million of operating profit and a sub 95% combined operating ratio, a strong result particularly given the market backdrop. Our 2020 motor excess of loss reinsurance cover was maintained at GBP1 million, and the team did a great job as all layers were 100% placed at a modest increase to last year. We believe the quality of our motor business and our strong reinsurer relationships supported our competitive renewal.

Here on Slide 11, we have the ABI pricing data charts. The latest published data point shows some positive signs with prices up 0.5% in Q4 versus Q4 2018. The first increase for nearly two years. While this was encouraging, you can see that market price -- pricing remained behind our long-term claims inflation expectation of 3% to 5%.

The question we're getting from investors is how the claims inflation that we are seeing compare to our peers. So I'd like to spend a few minutes walking through our 2019 claims experience in a bit more detail. Our claims experience was consistent through 2019 with underlying severity inflation towards the top end of the 3% to 5% range driven by damage. Claims frequency however was better than our expectations, following the benign weather alongside lower risk mix and actions taken on counter-fraud initiatives.

You'll recall Gus talked about the value of claims insight in his pricing presentation at the Capital Markets Day. There, he talked about our in-built strengths, which have enabled us to deliver strong results over a number of years. The scale of our data and our ability to see trends early, we believe is a key differentiator. For example, we improved our counter-fraud process and enhanced our risk models, which has led to a reduction in risk mix and helps us to reduce claims frequency.

We have the second largest owned vehicle repair network in the UK, our vertically integrated model, gives us greater control of our claims environment and indemnity costs. For example, around half of all accidental damage claims go through one of our 21 owned repair centers, which gives us greater control and visibility of repair costs. And we also monitor credit hires closely, so we can identify any changes in claimant's listless behavior. And we're not just good at repairing cars. We're good at managing bodily injury claims cost too with specialist skilled teams, who manage cases proactively so as to prevent leakage and keep costs down. We believe our business model enables us to better control claims costs, giving us sustainable advantage. We remain committed to developing and improving on the activities we believe make a difference.

Looking ahead, we continue to expect underlying claims inflation to be between 3% and 5%, and are satisfied with the margins we rose in 2019.

Moving to home on Slide 13. The home result was strong with operating profit of GBP151 million, and a combined operating ratio of 80%, reflecting benign weather and our actions on pricing and underwriting. The market was rational in 2019 with pricing broadly tracking long-term claims inflation of 3% to 5%.

Against this backdrop, we increased our prices on new business ahead of the market to strengthen margins, particularly on PCWs, which resulted in a modest reduction in new business volumes, while retention remained strong across the portfolio.

Home average premiums continued to reduce, a reflection of better risk mix, lower renewal prices and a continued shift towards a price comparison website channel, which typically has lower average premiums.

Moving to the right of the slide, the current year attritional loss ratio was 53.5%, 3.5 points better than 2018. This reflects our claims experience, which was better than our long-term view as we continued to see improvements on escape of water inflation, following the actions we took a couple of years ago. It was also a good year for attritional weather, and we benefited from lower claims from event weather. Home was the only division to see an increase in prior year releases in 2019 up GBP8 million to GBP41 million, reflecting favorable developments on escape of water claims.

Looking ahead, we continue to expect underlying claims inflation to be between 3% and 5%. In respect of the recent storms Ciara and Dennis, our early estimates of the claims cost across home and commercial is in the region of GBP35 million. This represents a little over half of our 2020 weather load of GBP64 million for home and commercial.

Rescue delivered a strong result in 2019, but this was offset by small losses across other personal line products. Overall, this segment delivered GBP39 million of operating profit and held the combined ratio stable at 95%. Rescue, which is the largest part of the rescue under the personal lines result grew profit 12% to GBP45 million and delivered a combined ratio of 81.5%, almost four points better than prior year. This improvement was a result of a continued focus on operational and customer service improvements alongside benign weather. The other personal lines loss of GBP6 million was driven by falling prior year releases in UK Select, which is our mid-to-high-net-worth business and travel. We also saw additional headwinds in UK Select from higher large loss severity.

Looking ahead, we expect Rescue to continue to transform and grow, and we're working to improve the results for our other personal lines businesses.

Finally to commercial, on Slide 15. Commercial delivered GBP55 million of operating profit and had the combined operating ratio broadly flat at 96%, while improving its current year attritional loss ratio. The improvements in current year claims performance is a result of investments in pricing and strong rate carry in NIG. The team has been working on a range of pricing and underwriting initiatives and the benefits are beginning to come through.

Direct Line for business continued to grow across all product lines while also ensuring strong rate carry. Prior year leases were GBP 14 million lower than 2018 in part due to Ogden. This was partially offset by lower event weather of just GBP3 million in 2019 compared with GBP10 million the previous year. Looking ahead, we expect commercial to continue to focus on improving technical pricing to support profitability.

Now back to the group view, starting with operating expenses on Slide 16. In 2019, we reported operating expenses of GBP694 million, outperforming the GBP700 million target that we set out a year ago, and a GBP25 million improvements on prior year. In November, I said we are targeting GBP50 million of savings in operating expenses, excluding amortization and depreciation by 2021. Here in the waterfall, you can see that excluding amortization and depreciation, operating expenses were GBP615 million, GBP11 million lower than prior year, whilst absorbing increase in levies of GBP14 million, driven mainly by the Motor Insurers' Bureau and Financial Services Compensation Scheme.

Amortization and depreciation charges were a little lower in 2019. However, the outlook is for these to increase as we rollout new technology. As I outlined earlier, we expect to incur restructuring charges of GBP60 million over 2019 and 2020. In 2019, we realized GBP11 million of restructuring costs and we expect to incur the remainder in 2020.

Our business model is different to many of our peers and therefore so are the economics. However, we consider our expense ratio is too high, so I reiterate our target to achieve an expense ratio of 20% and by 2023. We're making progress on addressing this. I've already run through the cost reductions delivered in 2019. We expect this trend to continue as we realize the benefits of our investments in systems and technology. We announced last week that we're looking to continue reducing headcount as we rationalize our site footprint over the next two years, and we launched a consultation in our head office functions as we aim to improve the speed of delivery at lower cost. These actions are clear steps towards reducing our cost base, so that we can be more nimble and efficient and improve our competitiveness.

In line with expectations, the group generated a total investment return of GBP135 million, GBP20 million below 2018. This was due to lower assets under management and the expected reduction in realized and unrealized gains. Realized and unrealized gains taken through the profit and loss account was GBP16 million lower in 2019, following a reduction in investment property valuations. At the end of the year, the available for sale reserve stood at GBP48 million unrealized gain compared to an unrealized loss of GBP37 million at the end of 2018. This was due to tighter credit spreads and lower interest rates.

Moving to yields. We achieved a net yield of 2.1%, slightly ahead of the 2% guidance. In 2020, we expect to achieve a yield of around 2% and minimal gains. At the Capital Markets Day, I said, we are focused on improving the quality of our earnings and are targeting over 50% of profit to come from current year by the end of 2021.

Here on Slide 19, you can see the progress we made in 2019. And if you exclude restructuring costs and adjust the normal weather in Ogden, we increased the current year proportion from 36% in 2018 to 39%. This is good progress when you take into account the benefits in 2018 from investment gains and the gains on sale of our Bristol office.

Now finally to capital. Here on Slide 20, you can see the movement in capital surplus. Moving left to right on the waterfall, capital generation of GBP610 million was slightly higher than IFRS profit in part due to amortization and depreciation. Capital items are written-off immediately for Solvency II purposes as you can see on the right here but depreciated in the IFRS results. This was helped with positive marks to market gains due to the narrowing of credit spreads. The increase in the 2019 SCR results from the remaining restructuring costs we expect to take. We expect the solvency headwind to unwind in 2020.

Capital expenditure was broadly in line with expectations at GBP189 million as we reached the peak of our spend on new technology. And in 2020, our capital expenditure is expected to reduce to around GBP150 million. At the capital distributions, which I'll come on to, our capital surplus is a healthy GBP850 million.

Turning to the solvency ratio. Our good trading performance enabled us to grow over a full year regular dividend by 2.9% to 21.6 pence. You'll recall at the Capital Market Day I reiterated our 140% to 180% solvency capital ratio range. And this in normal circumstances, we do not believe it's necessary to consistently hold capital in excess of the midpoint, that is 160%. We also said that the Board's preference is to return capital through buybacks, and today we announced our intention to repurchase up to GBP150 million of shares by the end of July. This continues our strong track record of returning surplus capital to shareholders. Our capital surplus equates to a solvency ratio of 165% after proposed dividends and our share buyback program compared to 170% at the end of 2018.

To finish, let me reiterate the financial targets we outlined for you in November. I believe this business has strengths and untapped potential to become more effective and efficient. We are proud of these results, but there are many areas where we can do more. I reiterate our targets on cost, earnings quality, combined operating ratio, and of course our return on tangible equity targets of at least 15%. And importantly, we start 2020 with a strong solvency ratio of 165%.

Thank you for listening. And with that, I'll hand back to Penny.

Penny James {BIO 15157212 <GO>}

Thanks, Tim. So over the next few slides, I'm going to outline the key milestones that we've achieved last year on the IT transformation. The progress that we've made against each of our six strategic objectives and the actions that we're focused on as we go into 2020.

Now to be a sustainable business, we need to be delivering for all of our key stakeholders. So let me start by reviewing our overall performance through those various lenses. Now as you can see we've had another successful year. We've maintained good levels of highly engaged people and consistently have top quartile engagement scores, which is particularly important as we go through a period of such significant change.

We've increased our net promoter scores, demonstrating that engaged people, go the extra mile for customers. And that's helped us to attract and retain more customers in 2019, growing our own brand policy counts to 7.3 million. And for our shareholders, we're returning GBP447 million this year, taking it to a total of GBP2.2 billion over the past five years.

And finally, alignment between all of our stakeholders is really important, and we couldn't do this without the hard work and energy of everyone in the business. And that's why we've announced that we're giving GBP500 worth of free shares to each of our colleagues.

Now to sustain the success of our business, we need to combine great people, fantastic customer service and the right technology, and that's what we're working towards. We've delivered good results in 2019, but we need to keep moving on our journey to achieve our objectives. It's a journey that begins by delivering the technology that gives us the right tools to drive the business transformation, because that's how we create the speed nimbleness and cost base that we need to thrive. And this powerful combination means that we can innovate and get products to market quickly, which helps us to be more competitive and grow.

And in 2019, we kept moving, investing in and delivering on the technology upgrade and bringing clarity to the strategic direction so that we can change with real purpose. 2020 is now about progressing that technology upgrade and changing the way that we work, so that we can realize the potential of both our investment and our people.

As we've described before, we're upgrading our key technology blocks across the business to make it fit for the future. 2019 saw that technology transformation pick up place with launches such as our new motor platform, which now has over 25,000 Privilege policies has supplied 15 million quotes and is live on all four price comparison sites as well as Direct.

And our product Darwin proposition, which has grown to GBP4 million worth of motor premiums and 10,000 policies during 2019. And Direct Line for business, which has had a trade person and just last week Van onto its new IT platform. And our travel system, which was launched last year and now has over 1.6 million policies and much streamline processes for customers and consultants alike. And behind the scenes, in the less visible but equally important IT infrastructure, we continue to improve efficiency reliability and flexibility.

For example, we've rolled out the new hosting platform with the migration of all the relevant servers onto it essentially building our own private cloud. The implementation of our ambitious and complex IT upgrades continues carefully, but also with pace and it supports our strategic objectives.

So, now let me talk you through the individual highlights helping to deliver those. Our six strategic objectives are designed to help us deliver our vision and realize the group's potential growth. Looking at the first three, which are all about making sure our products are easy to use and available everywhere.

Let's start with Best of Direct. And we believe there's a place for brands that provide peace of mind and meet a broader set of customer needs. So backing that brand promise with delivery is really important. And in 2019, Direct Line achieved its best ever customer net promoter scores, underlining that we put customers at the heart of everything that we do.

I'm also really excited to announce that our marketing team who came up with the award-winning fixer campaign will launch later this week, a new creative for our most famous brand. And those of you in the room at the end of the Q&A might just get a sneak preview if you're lucky.

Green Flag our direct rescue brand has now passed the 1 million policies mark. And as I said earlier, Direct Lines for business has other key products to its IT platform.

Moving onto winning on PCWs, where we see real potential to grow profitably. As well as launching Darwin, we grew the Churchill brand at a good pace in 2019 even before the brand creative re-launch. We believe that brand strength has value on PCWs, and this combined with the new PCW focus, helped drive 25% new business growth in Churchill motor in 2019.

Moving on to our third strategic objective, extending our reach. The delivery of the new travel IT platform has helped us secure our two major travel partners, NatWest and Nationwide Building Society. Travel is a capital efficient and fine margin business where scale and efficiency really matter, after the brilliant capability when it comes to dealing with really serious claims. The platform is designed to allow us to scale efficiently and with these.

So let pause here to talk a little about coronavirus in terms of our Travel business. The financial impact has been limited so far around GBP1 million and we have significant reinsurance which reduces our net exposure to future claims. Operationally, we're taking all the right precautions for our people and are preparing for any potential deterioration in the situation. And as I'll come to you in a moment when I talk about floods, we're well versed in responding operationally to challenging conditions and events and supporting customers in difficult circumstances.

We continue to develop our home partnership with NatWest by focusing on the end-to-end customer experience through both digital and branch networks. As you know, through this partnership, we've been offering three year fixed rate home policies since 2015, and this now represents 45% of the booked policies and has helps us grow the portfolio. The partnering is also about innovating and building capability. So we're delighted to be working with partners such as, Starling, Drover, YouMeCar, so that we can remain relevant and competitive into the future.

Moving on to our three key enablers now, starting with technical edge. Here we're aiming to create a great experience for our customers and a sustainable competitive advantage. We expanded our repair network in 2019 opening in weybridge our 21st repair center. And as you heard from Tim, we believe our network of repair centers gives us real claims cost benefit. But the expertise we're building here is also starting to influence the future of car repairs. You can also see the benefits of our technical edge in the underlying home performance. Escape of water claims have been brought under control by reviewing excesses, making risk model updates and making operational improvements within claims. But we never forget that insurance at it's very heart is about delivering on our promise to customers when they need us most. And nothing brings us home more than the floods that we've seen recently in Doncaster last year and Ciara and Dennis this year.

What matters is that we get customers the help that they need really fast. All our customers displaced by the floods in Doncaster were out of hotels and in private accommodation by Christmas. The day after storm ciara's overall volume surged to nearly 400% normal levels. But due to our surge planning approach, we were able to return to our target service levels for both motor and home in the following day.

Having the ability to cope in these events takes skill and it takes experience. And it provides real value to customers who get their claims dealt with and back on their feet quickly, but it also means that it helps us control our costs. But I said to you before we are not yet as nimble all cost-effective as we want to be. Tim already outlined the actions we're taking on cost, and these are critical if we want to achieve our ambitions. But we also need to work differently and get out to market with our products and pricing faster than we do today.

Now we've been experimenting with agile techniques with different success -- with success across different parts of the business. For example in Direct Line for business, in Darwin and our digital teams in claims and also in Rescue, which is where I just like to turn for a moment.

18 months ago, we restructured Rescue to a fully agile operating model. And today, every team is cross-functional and capable of delivering products from the beginning to end within that team it's self-organizing and empowered to make decisions to build and get product to market. It is focused on building a product in small pieces, which they keep refining to get out to market quickly rather than trying to build everything at once. It is the time to test, learn and improve the product by getting real-time feedback from the customers, and consistently making work visible so that everyone is aligned.

And the result, while a new claim system built in 12 months multiple releases to improve quote and buy journeys a 13% increase in Green Flag premiums, a 12% increase in Rescue profit this year and a plan that is full of ambition.

Now we want to replicate this success across the group. And last week, we shared proposals with our people to adopt this operating model across the areas of our business that drive change, and it involves around a thousand of our people moving to an agile operating model. And it's all about delivering more value to our customers by improving our productivity and accelerating our time to market dramatically.

On the back of the success, it's brought in our digital teams in Green Flag in DL4B, it's shaping up to be one of those moments that injects fresh energy into our business.

Finally, and most importantly, great people, we have a culture of openness and exclusivity. We celebrate difference and we challenge the status quo. People know what we're aiming for and believe in delivering great outcomes for customers. I think those of you that came to Doncaster felt the special culture we've created. And there's no one defining factor that makes this so. It's a collection of people wanting to do the right thing, whether it's our employee representative body of around 100 people, who actively support the communication flow between the executive and our people to make sure the dialogue remains fully open.

And this has been particularly important over the last few weeks as we've entered into consultation on the shape of our business and how we support people through the resulting change. These decisions are always really difficult. And we've given our colleagues as much time as we can to prepare and we will be offering a range of support to help them through that transition. But then as also our 80 graduates rotating around the business. of the 220 apprentices studying and developing technical expertise across various functions, following the path of the 200 before them who have already qualified. And I continue to be really proud of our well-being program, especially around mental health, which has made an acceptable to talk about personal and mental health issues. Having a diverse, highly engaged and empowered people will always be the key to sustaining this business effectively.

So that's the report of 2019. What then are we focused on as we move into 2020? while, we continue the development and rollouts of our ambitious technology change, and aim to move Direct Line in Churchill motor onto our new platform to launch Darwin on two more PCWs, to rollout Green Flag's new claims system, to upgrade our finance systems onto a new cloud-based Oracle ledger, to re-engineer our technology platform to support those new systems and to enhance productivity. And by moving to fully agile ways of working, we expect to lay the foundations for the future growth of the business.

Lending technology change, and meeting our cost targets, are key activities for 2020. But we never lose sight of the importance of brand and customer with exciting plans for Green Flag, Churchill and Direct Line.

And finally, last week we learned that the FCA market study proposals on pricing will be published in June. We gave you a really extensive update in November and honestly little has changed since. We continue to work well with the ABI from an industry perspective and are making progress in implementing our own measures. So 2020 will be an exciting and very busy year.

Now just before I move on to my closing messages, let me remind you of what we told you back in November.

First, Direct Line Group has a number of incredible strength from strong brands, to rich data, to leading claims skills. They are hard to replicate and we believe provides real long-term value.

Second, this is proudly a people business, which means we really care and have a passion to serve our customers. Third, we have a real ambition, and a focus on transforming the business to deliver a step change in our competitiveness.

Fourth, we've continued to improve the quality of earnings with a greater proportion coming from current year business, reflecting our improving competitiveness.

And finally, we maintained a strong balance sheet with further opportunities to improve its effectiveness. We have a huge amount to do both operationally and technically. But if you just heard, we've continued to make progress against our clear and focus plan.

So in conclusion, I believe today demonstrates we're in good shape. We've delivered a good financial result in 2019, navigating difficult trading conditions. And I believe this should give our stakeholders confidence in our focus and discipline and in the resilience of our business model.

In 2019, we started to deliver the technology upgrades that we've been working towards for some years and we have well-defined and focus plans for 2020 to deliver the business transformation in line with the clear strategy that we've laid out.

So with that, I suggest we go to questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions).

A - Unidentified Speaker

Thank you, Penny. Thank you Neil. I will start with the questions in the room, and I'll I start on this side and workaround, so apology if you get on at the end. If I could just ask you to keep it to two questions and then if we've time at the end we'll come back for further questions. (Inaudible).

Q - Analyst

My name -- [ph]. My question first one is on the -- on dividend. I think at the Capital Market Day, you said that at the time of the -- the valuation at that time you considered share buyback over special, and your shares have rallied, it's in a different territory except last week, of course. And I just want to understand a little bit more in terms of your valuation rationale or why you choose an buyback instead of special. Do you look at a NAV or PE or dividend yields just to help us sort of think going forward. And also second like going forward on the dividend. Are you just swapping out special completely is it going to be just buyback?

A - Tim Harris {BIO 16707496 <GO>}

Yes. So, I think the first thing to say is to answer the second question first, we've been very clear in our discussions certainly at board level that we want to keep both of those options open in the future. And there will be a time where we prefer buybacks, there may well be a time where we decide to use special dividends economically, of course, there is no-- economically, we're returning money to shareholders and there's not a huge amount of difference. But we entered into the buyback program having consulted with shareholders, over quite an extended period of time. As I explained in November, the thinking was influenced by the dividend yield on the stock. You're absolutely right. But we've seen some improvement in the share price since, I think it's fair to say but we still think in the current climate that buybacks is the right approach and that's why we've announced one today.

A - Unidentified Speaker

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. So the first question is, you have clearly gained from improved claims frequency during 2019. How much of that is continuable as the new IT rolls out and does the sort of management actions you've taken? Continue to evolve and how much should we perhaps see as one off during 2019 or at least ceasing as of in 2019. And then second question which I suppose is sort of linked to the first, is, you talked about being satisfied with the underwriting margins. I think with the words in motor and yet Penny also talks about 2020 being a year of improving margins. So I'm just wondering if you can rationalize between those two comments.

A - Penny James {BIO 15157212 <GO>}

You might want to take (Inaudible).

A - Tim Harris {BIO 16707496 <GO>}

Let me. So on claims frequency. I think it's true to say,that frequency improved relative to 2018 particularly on most damaged claims. That's because there was a bit of a spike in 2018. I recall, we'd a good summer in 2018 that was contributed to that. So is it sustainable? I think the thing we think is sustainable and we intend to continue investing and developing is using the business model features, which we think are, if not quite unique to us, what we believe are real strengths.

So that is around the accident repair centers, it's around our use of data. It's around our deep claims technical expertise, including things like bodily injury the work we do on application fraud and claims fraud. These things -- we think are sustainable, and will deliver we hope sustainable benefits in the longer term. In terms of the frequency, I think overall the trends in frequency are aligned with our long-term view, It's just so you saw a bit of a movement from '18 to '19 because of the experience in '18.

In terms of the underwriting margins, it's the nature of CEOs always want to see improvements as you know Oliver. I think that's we -- for the motor book specifically, we're encouraged by the result last year. I think, you've got to take that result for the year as a whole and over if you look at the H1, H2 trends, but you've got to remember that to some extent -- some of the detailed modeling for example on prior year development happens in H2. So, if you look at the year overall, I think we're encouraged by that and -- we're hoping that we can continue to perform at those kind of levels.

Q - Dominic O'Mahony

Hi. Dominic O'Mahony, Exane BNP Paribas. Thanks. I'll take two questions. So the first question is on the transformation plan. Clearly very ambitious, very exciting to be moving to an agile model. The as I understand it's a very large program, I think you've described as one of the biggest technology programs at least in Europe. What do you see as the potential risks around execution on that and how are you mitigating that, how you are controlling those risks?

Second question is a very specific question. You described the motor repair network has been one of the features of your -- this is what it will gives you competitive advantage, do you actually see a real difference in the claims inflation that you experienced in your own network versus the roughly half of the repairs that come through external repair centers? Thank you.

A - Penny James {BIO 15157212 <GO>}

Let me take first one. So, I don't remember using those words, but I may well have done. But it is a complex program we are changing almost every piece of every system in the big parts of the business. So we don't underestimate that and you're right. We're also making changes to the way we operate as well. So there's a lot going on.

What I would say, is I think the nature of the risks in that program has shifted over time. So we're much further advanced than we are in some of those big blocks. Some of them were in testing now, whereas we were a year and a half ago, we were in design and so it feels different -- at different stages. What we're really focused on is that we'll be landing different things into the business at different times across this year. And our priority is always to make sure that happens safely, which is why, we're not satisfied giving you a math of every single month on what's going on. Because we'll maneuver those as we need to, to get them to land safely.

And how do we do that? Well largely that's the job of the people sat in the front row and the ExCo we talk, probably more about that than any other single component to make sure that we understand the effects of what we're doing and that they land safely.

A - Tim Harris {BIO 16707496 <GO>}

On the second question, which is around do we a see similar inflation trends in the repairs that we put out for third-party treatment. I think the answer is, the big advantage of having over half of our repairs done in house is the insights that gives us to the overall supply chain, including the supply chain that's going into those third-party providers. So I think, there are different pressures, but it puts us in a very, very strong position having that in-house capability. So, I'm going to avoid slightly answering the question directly. But I think the -- there are definitely benefits to us not just from servicing our own repairs, but the insight that gives us into wait over people service repairs.

A - Unidentified Speaker

Sami.

Q - Sami Taipalus {BIO 17452234 <GO>}

So. Yes, thank you, Sami Taipalus from Goldman Sachs. First question is on reinsurance. Could you comment on the renewal of your reinsurance program? Whether you made any changes? And what you saw on the pricing of that and maybe also you talked at the Capital Markets Day about potential reinsurance action in your future years. Is that something we should think about for 2020 maybe?

Then the second question is on capital generation. I think, you talked already a little bit about the difference between net income and own funds generation. And I think D&A accounts were about half of that maybe? And what's the second half related to own funds generation was quite a lot higher than net income? Thank you.

A - Tim Harris {BIO 16707496 <GO>}

So, let me deal with reinsurance question first. So we didn't change -- the biggest program we buy every year was most of excess of loss program. And we didn't change the structure of the program this year. We kept it the same, so that's buying protection in multiple layers above a GBP1 million. The -- I think, it's fair to say that it was a tough renewal season generally in the market, but we are really pleased by the way our reinsures responded, we've strong relationships with a number of reinsures who have a very deep knowledge of our ongoing claims experience. And so the rates that we were able to get while a moderate increase on last year, were acceptable from our point of view. So that was encouraging, I'm going to avoid giving you a figure but it was a satisfactory outcome.

The question about looking at reinsurances . I did talk a bit about that at Capital Markets Day to manage expectations of course, about the time we were doing at Capital Markets Day, we were beginning the process of the 1 Jan renewal. So the likelihood of too much of new thinking -- new ideas of eating fruits of this renewal cycle. It would -- the important thing was we executed that fantastically I'm delighted of the team in my view did a brilliant job.

The -- in terms of stuff we might do in the future, we're actively thinking about that. There will be a right time potentially to make some changes relating to the other financial dynamics in the business. So, I'm to promise anything in the short term, but be reassured that we're actively thinking and working on it.

The second one, I've got, some here, I didn't catch what -- I didn't hear, you said?

Q - Sami Taipalus {BIO 17452234 <GO>}

Just if you look at -- if you start with the net income and add back the depreciation and amortization you get to about GBP 500 million, but the operational capital generation was about GBP600 million. So, there's still GBP100 million difference roughly there. So I'm just wondering where that came from?

A - Tim Harris {BIO 16707496 <GO>}

So you've got some movement on the spreads, which made a pretty big swing this year. I think, and beyond that we'll need to just check and get back to you.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Thanks, Edward Morris JP Morgan. Two questions, please. First, can you talk a little bit more about Darwin? Do you think you've enough evidence yet to make an assessment on that what the profitability of that book is relative to your other brands? And what are your expectations for the sort of trajectory of growth of Darwin for the next few years?

And second question. Can you just talk a little bit more about the current trading experience, what you've seen in the year-to-date? And have you noticed any change in behavior of your competitors as the pricing environment has started to turn over the last 6 months?

A - Penny James {BIO 15157212 <GO>}

So Darwin. Look, I think Darwin weren't in built far a lot of last year. And I think we've been really impressed on what they've done operationally. It's a landing parts of the premium book if you like, the kind of policies, we would have expected it to. This is Kind of doing, what we thought it would. I think there's been a lot of learnings in particular around fraud and how that's worked. So one of the reasons we're taking our time is to make sure we've got that right and flow through we put through a number of changes.

On that and importantly the footprint overlap at the moment is still relatively small with the rest of the book. You'll only really know when you start to ramp it up. So, I think we still have kind of high expectations for Darwin. We still -- we like what they've done, we like how effective the team have been. And how they built it, we like where it's targeting as the pool of customers.

The thing that we are time on is the point at which we ramp up if you like, because it takes time to get a claims trajectory and it can take time to unravel what sort of short-term fraud features that you're working through and what's real claims effects. And that's the judgment that we will be making as we move through this year at what time we step forward, but we're still really positive about what they've done, and the possibilities for it.

And how's it feeling -- actually much of the same. I think ended last year with kind of modestly positive is kind of the way we feel about -- and it kind of feels like that now, so that's carried on into this year. So we're feeling, yes -- not hyper excited, but mildly positive, how's that.

Q - Analyst

Morning, it is -- from Credit Suisse. Just two questions for me. Firstly, on the gap between new and renewal pricing. We've seen some industry-wide pricing data that suggests the gap between the two starting to narrow. Are you observing the same on your book and then just thinking that through logically, if the cap does start to narrow between renewal and new business pricing. Do you think that will eventually lead to a lower shop around activity or a reduction in shop around? That's the first question.

And the second question is on margins, if you assume flat top line growth for next year. How much rate do you need to put through your book to maintain your current margins across your motor book and your home book, please?

A - Penny James {BIO 15157212 <GO>}

Okay. Let's do the what have we seen and, I think it's probably primarily a home question the first one although echoes across. I think overall, we've seen -- we're seeing some movements These -- they are certainly ours where we're putting inflation through both new business and renewal book. As a whole, but actually you're seeing more price going through a new business relative to renewal so there is some flattening going on.

And I can't tell you what others are doing, but I'd be quite surprised if you aren't seeing that in different parts of the market to some degree -- to moderate degree. So, I think that's certainly a feature of it.

Does that mean, that you would have more or less shopping around us on. I think the reality is in June. There's going to be an inflection point, and I know because I talk to the other CEOs of the ABI everybody is trying to make progress on this point. And the ABI will issue in may sort of time to progress those it's been made across the industry and so give so guidance on that.

But the reality is, what -- it's what the FCA say, that will determine what the plainfield looks like when we get to June. I think, in the long run if you see a leveling of pricing, it's natural to assume that you'll see less people filling the need to shop around. Some of the FCA's proposals I think would lead to more shopping around some to less we just have to see what, where they go. So that was the first question. Second one, was --

Q - Analyst

Second was on margins. Basically how much rate do you need to put through, if you have seen, for example flat topline, what would you need to put through in rate to

A - Penny James {BIO 15157212 <GO>}

We are -- whether it's home or motor, we are value first, volume second. So we will be putting through inflation or something around inflation across the book. I can't vouch for what others will do, what the volume is -- that comes off the back of that will be determined by the -- others are doing the same or not.

Q - Analyst

Thank you.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. This is Kamran Hossain from RBC. Not related to abid. Two questions. First one is just on, I guess the reduction in headcount you talked about 800 people. Can you just talk a little bit, or give a little bit more color around which areas you're planning on taking kind of headcounts out of? And then what this might do for kind of morale and kind of what -- the company's experiencing how well things have gone over the last few years. And then the second question is on the -- it's going to sound like a little bit of a winge I'm afraid. The capital ratio is 165 --

A - Penny James {BIO 15157212 <GO>}

Definitely, it's kind of it's a winge.

Q - Kamran Hossain {BIO 17666412 <GO>}

Do you think I mean, it's never been right at the middle of the range? Do you think we will get there in future years?

A - Penny James {BIO 15157212 <GO>}

Absolutely. Why don't I take the first one. So what have we actually announced, we've announced 790 jobs and they fall into I guess four categories, the bulk of them are in two sites in Manchester and in Ipswich. And then there's some other pieces, those tend to be areas that -- there's a mixture of areas in there. Form Sales and service areas some claims areas, but primarily those are responding to the fact that over time customers are dealing with us more-and-more online. And also our expectation is that trend continues, which is reflected in some of the investments that we're making that we sure do in Doncaster is to enable that, but we are working at that over time is that we will need best people in the front line.

So that's kind of one pool and we whenever we close a site it's not something --it's something we as the team know we worry long and hard about. But we give people a minimum of 12 months' notice so that and then we'll put in support arrangements back along side of them individually, sit down and work through their transition plans with them in the case of Ipswich we've actually given them 2 years notice, because we wanted to be really clear that we had shared everything we have in sight. And also that we could give people the maximum amount of time to help navigate through that process so.

So the other changes are -- the numbers are smaller. So there's around 70 roles, -- 70, 80 roles in the change areas generically. So we've got 1000 people affected by the move to agile. We've done quite a lot of work in the run-up to that to limit the amount of roles that are affected by that, so through recruitment freezes and so on we've been quite tight on the way and we've been able to manage that down, because those will be enacted over the course of 2020. So we have a shorter time line if that makes sense.

So, there's a lot happening. What does it do for morale? You know we, we care deeply what our colleagues are thinking, clearly, as you go through any kind of change, you get a mixture of reactions as we move through, and we will continue to support them and work our way through it.

I do believe that people across the board understand the direction that we're going in and why? And that's a huge part of it. But it's also really important that we support people whatever transition they're going through, and is the plan and that people can see that. So 165 or 160 or 170?

A - Neil Manser {BIO 5571223 <GO>}

Sorry to disappoint. I think, you've got to remember a little bit about the context for the 170 was said last year, which was we're three weeks away from potentially a unplanned hard Brexit and clearly that situation has changed. So when we started thinking about where we would seek to manage as to in terms of the coverage ratio, and obviously the opportunity that gives us for returning capital to shareholders, we're thoughtful that the situation had moved on over the course of the last 12 months. So Clearly, there are still a number of other issues out there, not least uncertainty around the future relationship with Europe. So I think a move in the right direction was the right way to go, and that's why we ended up 165. I obviously can't tell you, what will happen in the future, but I think you can see that it is a move in the right direction and I remain committed to the things we said at Capital Markets Day about seeking to work towards 160 as our central point.

A - Unidentified Speaker

Just -- along to John.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thanks. Jon Denham, Morgan Stanley. Just firstly on the reserve releases. Were compared a little bit lower than all of us in aggregate expected, how did that compare to your expectations. And the attritional in home was really, really strong, how much of that is sustainable? And I think you flagged some comments already and maybe is there anything between first half and second half going on there next? Thanks.

A - Tim Harris {BIO 16707496 <GO>}

So, let me deal with the reserve releases. I think clearly one of the components on the reserve releases is a movement in Ogden discount rate, which I don't think was entirely what we expected, but it's a -- has an effect, especially a swing year-on-year. The if you take that away though, the underlying progression is pretty much what we did expect. Yes.

A - Penny James {BIO 15157212 <GO>}

And home. I mean the home Is a fantastic result. And I think, is largely the outworking of a huge amount of work on the manufacturing side to bring together claims understanding -- underwriting understanding and make operational changes to make it more effective. So when you look at the result, there's several things going on. One is obviously you've got a normalized weather, two is, last year was so clean on weather that actually there is some attritional weather benefit in there as well. So we shouldn't expect that to run forever.

And the third is that the both the current year results and the prior result are benefiting from kind of the revised view of the cost of claim from all of that escape of water work. So, so in that sense, it's genuine stuff you should expect to see a lot of that continuing to flow through because effectively what you've done is we base your costs for moving forward. So, which is change your shape, if you liked a pricing in the second half of the year, because you're replacing of a different cost number. But to the extent it's flowing through prior year numbers, there's a catch up, if you like to reflect that those costs of claims are lower.

So, when you're looking at run rate, you need to be thinking about, this year stripping out weather stripping out attritional and recognizing that some of that prior year stuff releases is a catch up from all those benefits.

A - Unidentified Speaker

-- Ivan, next to you.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi. It's Ivan Bokhmat from Barclays. Two questions, please. One just a follow up on reserves. I have looked at your triangles and it looks like your initial loss picks have trimmed slightly down from 2019. I'm just wondering, if you could give a little bit of color on that. how much of that is weather moves and what's your general thinking about the management buffer around reserves? And the second one, is perhaps on whiplash reform that was delayed. I'm just wondering, if you could give us an update on how much you think that, but --

A - Penny James {BIO 15157212 <GO>}

Okay, while I take whiplash, and then you can do reserves. So I think yes, so whiplash reform has gone back to August, I think given where we are it's a good thing that it's gone back, it is the first thing. So there are a large number of players in this industry who are involved in dealing with small bodily injury claims and to try and get all of those educated and what it means in a handful of weeks it's sort of pushing a legislation through quickly, I think would have resulted in poor customer outcomes. So I think the right decision is to slow it down, give everyone time to train properly their people what it all means and implement it properly. So from that perspective good, the industry remains solidly behind it will flow through the benefits to policyholders.

And I think, what it means, in terms of pricing, we don't know, I mean, we just -- the initial government estimates were about GBP35. We've always been skeptical that, that number will flow through because you don't know how claimants and solicitors and some will react behind it. So, we will see.

A - Tim Harris {BIO 16707496 <GO>}

So on reserves, there's no underlying change in the reserving approach or methodology first thing to say, and no significant change at all in the loss picks. Other than from time to time of course issues work through the numbers and you become more certain about the long-term trends. And that can sometimes make it look like there's a movement but fundamentally the philosophy is the same. So, that's what we're doing.

Q - Analyst

Thanks -- [ph] from Bank of America. Two questions, please. Premium per policy has continued to decline in Motor and Home, how much of this is a conscious change in risk mix? And where you want to be? Second question on home. Own brands policies is also going backwards. Could you talk us through the dynamics you're facing in this market and where you want to be as well?

A - Penny James {BIO 15157212 <GO>}

Yes. We've seen average premium come off a little bit, slightly different reasons perhaps. In motor some of that is because we put some -- change some of our counter-fraud models earlier in the year. So I think, we flagged at half year that we were expecting to see average premium come down or had come down and we were flagging that we also expected to see claims frequency come down, but we're waiting for the trends to come through. In a way what you've seen here is the sort of the completion of that circle. It's not something that we actively seek to do, move average premium down or frankly up. It's more a matter of why we see the risks and how the risk models are taking us. Home probably slightly stronger effect because you've got a channel switch moving on -- moving here. So, there's quite a lot of growth in the price comparison site channels, where average premiums tends to be -- tend to be lower. With home, -- I write -- I didn't write the second one down.

A - Tim Harris {BIO 16707496 <GO>}

The second thing is about own brand

Q - Analyst

Own brand growth of home.

A - Penny James {BIO 15157212 <GO>}

Own brand growth and home. I'm going to -- again, we still are very keen to grow own brand and so on and so forth across the year, we've been reasonably flat overall, and our brands, we're keen to grow over time and we will do what the market it takes if we can at the right price.

A - Unidentified Speaker

Greig.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, everyone. Greig Paterson, KBW. I'll keep it to two questions. One is, about two to three years ago. You did a site visit to one of your repair shops and there was a big hoo-hah about moving into repairing of electric vehicles and that was going to be your sort of competitive advantage in the future. And there's a heavy CapEx involved in tooling up shops for that. I'm wondering, have you given up on that, given the cost saving program? and where we are with that sort of plan now theme?

And the second thing is, last year in the first half, you gave up by -- in my estimation four points in the motor attritional because you have stated that your -- you hinted heavily that your targeted loss ratio was 83 and 84. It's now at 81. Also Penny you've made statements recently about if the new tech comes along, you'd rather use it to grow the topline as opposed to the attritional loss ratio. So am I -- can we expect another 2,000 -- first half 2018 event where we -- you go strongly for share and give up say three points of rate?

A - Penny James {BIO 15157212 <GO>}

Okay. Electric vehicles. Actually, we still -- we do see a potential advantage in that space. Certainly, our number was such that does kind of a lot of our -- even looking at future car technology and so on one of the repair sites. And they do a lot of work on both around calibration of cars and with the effective batteries on car repair and looking at electric vehicles and what the cost of repair is there and what the opportunities are.

We haven't specified what we invest in the repair centers, but we continue to invest in them as we think appropriate. And we see it as an area of competitive advantage understanding how these things will work. And potentially being able to develop, repair approaches that will be harder for others to do. So, it's a real -- it is a focus area for us and we're committed to them.

I think on the -- you may want to talk as well on the points. I mean, we were coming as we gave up four points this year, a piece we described. I mean, we were coming off the back of the pricing strengths in the previous period so we were, in a leveling out period. And I think, Tim's already pointed out that the kind of levels that we look at are probably represented by the whole of last year. There's some movement between the first and second half. Which is really just about when you recognize trends that are coming through so I wouldn't ever read that.

But I'm not giving you a specific number, but I think, if you look across that year as a whole, it's a better representation of wherewe are whether that leads us to grow, whether that doesn't will -- remains to be seen.

We'll --

A - Unidentified Speaker

Can we just repeat the question into the mics, so people over the phone can --

Q - Greig N. Paterson {BIO 6587493 <GO>}

Sorry, given that we've got all these storms. I keep getting an inbound question on whether the flood Re levy for the industry will increase, when it's paid in the first half of this year?

A - Penny James {BIO 15157212 <GO>}

I don't know the answer to that. I don't think certainly for this year and I've no forward projection beyond that?

A - Unidentified Speaker

Okay, do we have any more questions in the room? If not, I'll -- if I can go to the phone lines. Have we got any questions on the phone line?

Operator

We do. And the first question comes from Kevin Ryan from Bloomberg Intelligence. Kevin, your line is now open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you. I just wanted to get a little more background if I could, on one issue that sort of nagging at me? I mean we've got claims inflation you tell us running at 3% to 5%, you're struggling to grow premiums at the headline level, and you're being disciplined, which is not helping. You've got a major restructuring program going through which may or may not overrun cost-wise and you've done GBP150 million share buyback or you're proposing to. That seems very ambitious to do all that with so many balls in the air. Can you give us some background as to why you've made so many I think, really quite bold decisions all at once?

A - Penny James {BIO 15157212 <GO>}

I'm not sure they're all at once. It sounds like we've dreamt it out since December and I think that will be a long way from the truth. Look we're on a path, as many people in this room kind of know to improve the quality of the earnings to improve the profitability of our current year business, and reduce our reliance on prior year business. And part of doing that is investing heavily in technology and the business to enable us to be much more efficient both in cost terms and the delivery of cost of claims and then loss ratio and speed to market. So all of those are critical. Now, we've taken the view as the benefits that come out that we'll always return money to our shareholders, and we'll keep the amount of money that we need to fund those investments. And to do what we need to do. So, the form and the nature of that I think is secondary to the fact that we're standing by our long-term commitments to return funds to our shareholders.

You're right, there is an ambitious plan of activity here. We absolutely recognize that, but I don't think there's anything new and startling in that and we continue to make good progress.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks.

A - Unidentified Speaker

You have any other questions on the line?

Operator

The next question? The next question is from Paul Walsh from Field Gibson Media. Paul, your line is now open.

Q - Paul Walsh {BIO 3076077 <GO>}

Thank you. Good morning. Just a couple of questions, please. Firstly, I'd be curious to know how much you are budgeting for your IFRS 17 operations. And lastly, I know we've touched upon the coronavirus outbreak in the presentation. But I was wondering if you could give me some more details about your operational contingency plan for coronavirus? And sort of and when will you decide to trigger this?

A - Penny James {BIO 15157212 <GO>}

If you can

A - Tim Harris {BIO 16707496 <GO>}

-- [ph] IFRS 17. You can handle the -- [ph] side of things. So look on IFRS 17 we've not disclosed a figure for the program. It is part of the finance transportation work that we're undertaking at the moment. Penny mentioned, another part of it, which is the implementation of the new oracle system and general ledger, which also most of the things actually pays a little [ph] claim. So, important investment along side all the other important investments we're making.

On our IFRS 17, I know from my board work that it's. I think in the context of direct line group, it's important to remember that at the end of the day, we've a personal lines general insurance business substantially and that a lot of the accommodations in the new standard in particular the premium allocation approach are available for the vast majority of our lines of business, which although I'm not complacent or for one minute, saying, there's not a lot of work to do relative to others, it will be more manageable and we're waiting of course, to see this month on the final decisions on timetable for IFRS 17 implementation, and we'll adjust our plans accordingly.

A - Penny James {BIO 15157212 <GO>}

On coronavirus. I mean, the first thing to say is our primary concern is for our people and our customers, so we'll plan accordingly. In terms of the impact from the business where can they come through there's sort of four potential areas. One is the travel business, one is the investments on the balance sheet, one is the physical operations, so 11,000 people, and one is supply chain. what could it do to the supply chains? I think we've been pretty clear on travel that cost so far around GBP1 million, and we've extensive reinsurance above that. So we feel that is contained.

In terms of the assets and the balance sheet, we're heavily diversified. We don't hold any equities, so really, it's what credit spreads do and even then anyone issuer is pretty small. Operationally we've multiple sites, so, if there are issues in one site, and we need to take a take action, then we've other sites that we can transfer to. But we're in the process of operationally planning through, and we're used from extreme weather events to having to adjust to different scenarios as well. And the supply chain is largely either local U.K. Or European and some instances and so far we've seen no impact at all. So, I think that's the swift pricing, but we do keep monitoring it obviously contingency planning as you would expect.

A - Unidentified Speaker

You have another.

Operator

The next question is from Andrew Crean from Autonomous. Andrew, please go ahead.

Q - Andrew John Crean {BIO 16513202 <GO>}

Hi. Good morning all. Two questions. You talked about volumes in your Motor owned brands increasing or growing in the fourth quarter. Could you tell us how that's been going since then? And secondly, you talked about improving the quality of profits, but I'm just looking at the quantity of profits for this year. I mean you've got quite a lot of headwinds, you've got lower investment income, lower base event and attritional weather, you should get lower costs. You won't get the Ogden discount, but you could be starting sort of with clean slate by 10% behind, what you just reported in 2019? I'm just wondering whether your management plans, see you actually growing the quantum of profits this year?

A - Neil Manser {BIO 5571223 <GO>}

So let me first of all deal with your first question Andrew around motor, owned brand and the positive trends that we talked about. Actually I think we talked about starting, when we met over Capital Markets Day, and they continued throughout Q4 and I think it's consistent with what we're seeing in the first part of 2020, so still encouraging.

In terms of -- I'm not going to tell you, what the profits are going to do next year, penny just got around telling you what we did this year. And all those

Q - Andrew John Crean {BIO 16513202 <GO>}

what are your plans. But we look forward to updating you on that as the year progresses.

A - Unidentified Speaker

Okay, do you have any more questions on the line?

Operator

No other questions at the moment.

A - Unidentified Speaker

Okay. So we've one more question I think in the room, and one from the web as well. So we just take one in the room and then I'll finish the one on the web.

Q - Dominic O'Mahony

Hi. Dom O'Mahony, Exane BNP Paribas. Thanks to letting me follow up two specifics if that's alright. So you talked about a 3% to 5% inflation. As a normalized inflation rate in both motor and home, is that severity or is that net inflation including frequency, or are they the same because you assumed flat frequency? And then Jon asked a certain question about normalizing for the attritional weather in home but also actually commercial. Can you do anything to help us understand how much a normal attritional has been in 2019? Is there anything you might be able to adjusted towards that?

A - Tim Harris {BIO 16707496 <GO>}

So let me deal first one. Because I've got an answer to that one. The 3% to 5% is overall, is net. And It's not true to say that they're one and the same because actually you do see some changes in severity experience. The other thing to say is without some medium to longer term trend, so you'll see some fluctuations in any particular year as for example, we did on frequency in 2018 in the motor book.

So, it's very much a net and overall figure for all lines of business. I haven't got a figure for the attritional loss. We've disclosed our event loss for whether GBP64 million overall, but we don't have a figure to share with you for the attritional losses. Sorry.

A - Unidentified Speaker

Thank you. And Just one question from the web, which is just asking whether we've guided to a depreciation and amortization in 2020, after slight fall in 2019. And Have you got any guidance for 2020 on depreciation and amortization?

A - Tim Harris {BIO 16707496 <GO>}

I haven't got a figure, but what I can say is as the way it works is as we're investing in the new systems, the investment we're making is capitalized. It's tested for impairment, but it's only when we actually switch it on and start using it but it starts amortizing depreciating. And we very much hope that we will therefore see a modest tick up in the depreciation and amortization charge in 2020, as our systems are turned on.

A - Unidentified Speaker

Thank you very much. Penny, do you want to -- last couple of words.

A - Penny James {BIO 15157212 <GO>}

Just to say thank you. I think we'll kill the phone lines at that point. So I thank you for everybody who dialed in. I think -- yes?

A - Tim Harris {BIO 16707496 <GO>}

Thank you, so much that would conclude the (Call Ends Abruptly).
