S1 2012 Earnings Call

Company Participants

- David Stevens, COO
- Greig Paterson, Analyst
- Henry Engelhardt, CEO
- Kevin Chidwick, CFO

Other Participants

- Andrew Crean, Analyst
- Andy Broadfield, Analyst
- Andy Hughes, Analyst
- Cameron Hussein, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- Peter Eliot, Analyst
- Ravi Tanna, Analyst
- Simon Denison-Smith, Analyst
- Tom Dorner, Analyst
- Trevor Moss, Analyst
- Will Hardcastle, Analyst

Presentation

Henry Engelhardt {BIO 3022947 <GO>}

Good morning. Welcome, everybody, to Admiral Group's full-year, 2012 full-year results presentation. This is the ninth time we've done a full-year presentation since we floated in September 2004.

An interesting little fact is it's the 15th presentation, the half years and the full years, so seven -- a little over seven years, and it's been the same Chairman, CEO, COO and FD making the presentation. And I wonder how many of the other shares[ph] you cover can make that claim.

Thank you for the early start as well. I know it's a busy day for everyone; a lot going on. We'll try and move through our things at a reasonable pace. I will talk for a brief moment on the results. Kevin will then come up and do a lot more on the results. David will talk about the UK operations, and I'll come back, talk a little bit about International. And then we'll take your questions.

You're not singing. Come on . 20 years, we completed 20 years of trading at the end of December last year. We launched January 2, 1993. We had one brand. We had no customers. We had 57 members of staff that first morning. On December 31, 2012, we had 13 brands, we had 6,500 members of staff, 3.5 million vehicles. It's been a pretty busy 20 years trading in five countries.

Yes, we've kept busy during the 20 years. A picture is worth 1,000 words. This was not taken this week leading up to the results announcement. This was actually taken in 1991.

Across 20 years what have we accomplished? If the rules change and instead of us reporting on a quarterly basis, or even a half-year basis, we only reported every 20 years, what would we be reporting? Well, we'd be reporting that in that time, we've employed 15,000 people, not all at once, 20 million vehicles; our turnover in that period is GBP13 billion.

And how have we done? Well, our loss ratio over 20 years is 69%, the expense ratio 15%. So our combined ratio over the entire period of 20 years is, well, I think you'd agree, is quite a stunning 84%.

What was the best loss ratio year? 2001; 50% loss ratio. That was a good year. In that time, we've generated over GBP2 billion of profit for our owners. And since we've gone public, the average return on capital is 57%; again, quite a stunning figure.

How about 2012 itself? I think the numbers pretty much speak for themselves. It's another year of record profits; record profits every year since we went public. And as Kevin will explain, actually, the list goes on long before that.

The return on capital was a record for us, 60%. Turnover up just slightly. Group vehicle count up a little bit more. Earnings per share in line with the profit before tax; and a record final dividend of 45.5p, bringing the 2012 dividend to 90.6p a share.

And dividend seem to be flavor of the month, so I thought I'd spend just a little bit more time on our dividend and our dividend across time. As you can see, it's a dividend of constant growth. Every year, that's about a 20% growth rate across from 2005 to 2012, and the increase every year.

The philosophy is quite simple. We have 45% of our profits in our pledged dividend. We then have the rest is a special dividend. We keep it that way as a special because if we need the funds for anything, we can take them and use them. But we also have a pledge to our shareholders not to leave copious amounts of cash swashing around in the Company.

So we take what we need to make sure our businesses are adequately funded, and then whatever's left, we are happy to pay out in dividends. And that's resulted in over, well over GBP1 billion of dividends being paid since 2004.

We did float; on float day, that original GBP2.75 share price gave us a market cap of GBP711 million. And if you had been lucky enough to get in at that price, you would have a total shareholder return today of 525%.

Thank you. I shall be back in a few minutes to talk more about International. But in the meantime, I'm going to turn it over to Kevin, who will go into some more details on the financial results.

Kevin Chidwick {BIO 15100612 <GO>}

Thank you, very much, Henry. Good morning, everybody. I'm going to talk about profits, capital and dividend. But before I do that, I just want to say thank you, Will Moore, sitting at the back. Will, I don't know how many people know Will, has been working for us as our in-house broker with Merrills for some time. But Will is -- the reason I'm mentioning it is because Will is leaving us, and I want to thank him for what he's done for us; but more importantly, thank him for what he's going to do for us, because he's going to join Officer Training to join the army. So thank you very much, Will.

Okay. Let me start with the story of the history; turnover since we launched and also profits since we launched. I think there are three interesting things to say from this graph. The first one is that the turnover has varied through the cycle. It's hard to see it on this scale, but the fast growth that's clear in '10 and '11, and then not so much in '12, was not an exceptional phenomenon. We did grow very fast in 2003 and 2004. If you look closely enough you can see it.

But we don't grow for growth's sake. We've said this before. We aim to do what we think is profit maximizing. And that means growing faster sometimes and growing less fast at other times, like now.

The second thing to say is that 2012 is a year of record profits, which is nice; but it's also the 20th consecutive year of record profits, as you can see from the bars on the graph. And all of that growth, all of those profits, has been organic.

And the third thing I wanted to say is that it's important to note that profit reporting is not synchronized with turnover reporting. This graph does, of course, not allow for margin, which is the critical ingredient when looking for the right level of growth that's profit maximizing.

And it's also true to say that our prudent reserving approach, which does lead to a lagging effect on profits, is very much reflected in the numbers that you've seen in the past and the numbers that you're seeing today.

So how did we do in 2012 relatively? Well, you can see that -- over the next few weeks the analysts will be updating their forecasts for 2013's profits, so I thought it would be interesting to look at how we did compared to the analysts' forecasts for 2012 profits, as they were forecast back in March/April of last year. And this graph sets the two against each other, and I think you can see that it compares pretty well to the range.

Henry's already given you the headline. We made a profit of GBP345 million for 2012, up 15% on 2011. Here I'm showing a breakdown of where that profit has come from. The picture is a familiar one. Once again, we have two minus figures, the red and the green bars below the line.

The red represents our Group costs. This is primarily made of our employee share scheme costs. It's an increase on last year principally because we've grown our staff numbers, and we're delighted to say that now over 6,500 staff will be granted new Admiral shares following these results.

The green bar, the minus 7% of the total, relates to the investment in growing our businesses outside of the UK. I'll leave it to Henry to tell you more about that progress we're making internationally, but suffice for me to say at this point that they've all got bigger, and so has the size of the investment.

At the top of the chart is a light blue bar. That represents our UK Price Comparison business, Confused.com. Confused had a good year. They've grown their turnover, and most importantly, in what remains a tough environment, they've succeeded in growing both their net margin and their absolute level of profit. Profits at Confused are up 13% on 2011 to GBP18 million.

The outlook does remain tough though in what is -- it is still a very competitive price comparison market in the UK.

That just leaves the dominant component of the picture which is, of course, the UK Insurance business. With a profit of GBP373 million, it makes up 108% of our Group profits in 2012.

The UK Insurance business has increased its profits by 19% year on year. They had a good year. I'm particularly pleased to say that the claims developments patterns that we saw in 2012 were a strong improvement on those that we saw 2011, and it is the case that we've not taken all of that improvement into the results that you see today.

David will go into much more detail on that shortly, as well as giving a summary of how we view the recent developments in the UK market, so I won't dwell on this any further at this point.

I will go on to talk about the dividend shortly, but before I do so, I wanted to share with you some numbers demonstrating the strength of our capital position. Our business is often described as capital light, and in fact, that's how we've described it ourselves. But that's the same as saying it's not very well capitalized, which it is.

It's a capital-light model because we reinsure the majority of our underwriting to our reinsurance partners, and because of these relationships, we only take, have to take a minority of the risk and, therefore, only have to provide a minority of the risk capital.

We do, however, benefit from the majority of significant profit sharing arrangements from the reinsurance deals. It gives the majority of the profits from the minority of the capital, and this is what we call a capital-light model.

But we are also cautious in our investment policy, and also cautious in our investments in our growing businesses, and that helps to keep the risk capital low as well.

So this model enables us to produce consistently higher returns on capital, typically more than 50% in the year, as you can see from the blue bars on the left there. And this year is no exception with a new record return on capital of 60%.

But not withstanding that, we are very well capitalized against -- when you compare it against the risk capital we need to maintain to meet our regulatory requirements at least, and you can see that on the chart on the right-hand side of the slide.

And now to my favorite slide, as always, the dividend slide. Henry has already covered this in some summary, so I will simply say at this point that we're once again paying out a new record dividend. We do pay out all of our spare cash over and above what we think we need to run the business. This means another dividend payout ratio of over 90% of post-tax profits.

Our dividend policy hasn't changed. In the absence of any specific calls on our cash, we do not foresee any reason why the payout ratio should materially change from its current level going forward.

The final dividend, as you can see from the slide, is 45.5p, making the full year dividend 90.6p. And for the final dividend, the shares go ex-d on May 1 and the dividend gets paid on May 24.

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.

In line with Henry's theme of the 20th birthday, I thought I'd just take the chance to just do a quick review of the UK car insurance market over the last 20 years before focusing the market in 2012, and then talking about Admiral's performance in that market.

In what many would probably assume would be a slow moving, relatively dull industry, there's actually been a huge amount of change over the last 20 years. And one of the most striking elements of that is who are the key players.

Back in '93 when we launched, you can see on the left-hand side the five biggest private car insurers. Roll it on, in this case 19 years, and you can see that there's only one of them still a key player, Direct Line moving from 5th to 1st.

Another thing that's changed is actually what we cover for our customers. Back in '93, it was bent metal and theft, and now essentially it's largely about bodily injury. So what that means is the frequency has come right down. One in five of our customers we'd might expect to make a claim in '93; that's down 30% by 2011, heading further down in 2012. But conversely, of course, the average claim cost well up, up 123% over the period.

So some things change, some things never do, and the cycle is one of them. This is a cyclical industry. You can see the pattern going back over 20 years. And interestingly enough, it looks like 2012/'13 is going to be an inflection point in that cycle.

Another interesting thing is the expense ratio. When we launched in 1993, the industry expense ratio was 26%. There's been massive IT investment. Distribution has moved from face to face, to telephone to Internet; substantial consolidation as players have merged. And the expense ratio 20 years later is 26%. So some things are quite stable.

So what about 2012 in the market? Well, the most striking feature of 2012 has been the premium reductions that we've seen coming through on the price comparison sites where most of the new business is transacted. This is the Towers Watson/Confused price tracking survey that tracks the best prices on price comparison. And as you can see, phenomenal turnaround from the plus 33% of 2010 to the minus 13% of 2012.

Now of course, you've got to caveat that by saying no one expects a plus 33% or a minus 12% to feed -- in 2013[ph] to feed through directly into the earned premiums because you've got new business renewal mix; not everyone accesses the cheapest rates. But clearly, there is a strong directional move down there during the course of 2012.

Why was that? Well, partly a correction of an overshoot. 2010, a plus 33% may be unnecessarily a rapid increase, partly a response to other factors. The frequency during 2012 was a surprise to many of us, but particularly because you have a structural tendency for frequency to fall, as I talked to -- about earlier, but 2011 had been a surprisingly strong fall, double-digit fall. And then one might have expected 2012 to see some reversion to the mean, and in fact, it demonstrated or delivered to the market as a whole another substantial fall in frequency.

I think another factor that was affecting decision making, especially in the second half of 2012, was a growing appreciation that maybe the Government was actually going to be serious about tackling whiplash costs and that reforms that were going to be introduced by April of 2013 might actually have some material effect on average claim costs. It may have influenced decision-making on business being written in the latter half of 2012.

I'm not proposing to talk in depth about those reforms. Direct Line earlier in the month I think did a very good job of talking about them. There's two pages in the appendix, 44 and 45. Happy to take questions, but I'm going to leave it there for the moment.

Another feature of 2012 I think that would have drove prices down was lower switching activity than we'd recently seen. One might expect that shopping activity would be driven by absolute premiums, but it does appear very strongly that shopping activity is driven by change in premiums versus previous year, and so as people began to see their renewal premiums coming down versus the previous year, they tended to cease to bother to shop. And so the price comparison market had a very modest level of growth in 2012, single digit, much lower than the previous few years.

A combination of all of these feeding through into a minus 13% does, we believe, imply that the cycle this time is likely to be shorter and sharper than the cycle that we saw during the first decade of the 2000s.

So that's the market. What about Admiral? Well, obviously, Admiral's coming off the back of a couple of years of phenomenal growth; 60% vehicle growth from the end of 2009/2011, and write[ph] slowing down to 2% in 2012.

Now we thought it was logical and correct to grow modestly in 2012. It was partly a function of getting increased certainty about what the claim situation was after the volatility of 2011, and it was partly in the context of a lot of players wanting to increase market share and prices going down. If we actually actively participated in that, we ran the risk of creating a vicious circle and not necessarily delivering growth but just damaging margin.

So our policy to flex growth to make the profit maximizing outcome, and that's what we did in 2012. I would anticipate that in 2013, the logic of that policy will again be that volume growth would be very modest.

Moreover, average premiums are falling. In 2012, the average written premium, as you can see on this slide, it was down 9% after two years of substantial growth. This is mainly due to price cuts. We did not cut our prices in the first few months of 2012, but as we gained increased confidence on the claims patterns, and given the competitive situation we were in, we did follow the market to some extent and reduced our prices by 6%. That's an average across new business and renewals from May to December.

It's mainly about price cuts; it's partly about mix. And the most striking mix effect is that a lot more of our business in 2012 is renewal business than had been the case in the two previous years.

So moving on to the key margin issues. We've talked about top line turnover issues. What are the key margin issues? And the key margin issue in car insurance is all about claims ratios, and there the news has been very good during the course of 2012.

At the half year, we talked about the 2011 accident year coming down 3 points from 74% projected ultimate to 71%. In the second half, it's come down a further 2 points.

Our first cut on 2012 is 71%. In the appendices there's a full history of all the individual years, and you'll see the years behind 2011 have all be flat, apart from one which has fallen slightly.

Now our reserve releases at 4% versus 2% are relatively modest by our standards, and it's a bit surprising perhaps to see that combination of very good news on 2011 not feeding through into a substantial reserve release. And the reason that hasn't happened is because at the half year, we decided to increase our buffer versus protected best estimate, and at the full year, we decided to further increase that buffer.

Now at some point, if claims remain stable and we cease to increase the buffer, that will feed through into material increases in the size of reserve releases.

Moving on to another key element of our margin, our expense ratio outperformance versus the market, you can see that over a long period of time we've beaten the market substantially. 2012, I'm sure, will be the case again with our expense ratio flat at 13%. And not only do we obviously beat the average, we also beat all our major players, as you can see from the columns across the bottom.

Talk briefly about Confused -- sorry, about other revenue. In 2011, we had average revenue per vehicle of GBP84, and when we stood up at the half year, we explained that we were introducing vehicle commission and it would have an impact on other revenue per vehicle because of the way we were going to account for vehicle commission. That impact we expected to be of the order of GBP6. And as you can see, the actual outcome at GBP79 is slightly better than that, but the big impact there is that accounting change.

Now if we go on to 2013, there are two predictable changes taking place in our other revenue line. One of them is that the partial unwinding of that vehicle commission factor, some of the vehicle commission loss of revenue actually will feed through into profit commission in future years, and we'll talk you through how that might work at the half year. But a chunk of it feeds through into an increase in other revenue per vehicle.

However, offsetting that is the end of PI, Personal Injury referral fees in April 2013. And the net effect of those two predictable changes will be a GBP2 reduction in our other revenue per vehicle.

Now I put a question mark against GBP77 just to make the point this is not a prediction for the overall outcome because there may be unpredictable factors that influence it, but those are the two predictable factors.

Yes, moving on to Confused, Confused had a good year. Profit growth up 13%, mainly on the back of margin improvements; turnover up 7%. Number of things contributing to the margin, but one particular one I might pull out is a successful year for us on natural search on Google. This is illustrated on the right-hand side. For those of you less familiar with Google, the top shaded area is paid-for search and the lower half is free search, and there is a lot of value at being near or at the top on free search.

And this is key term, car insurance search conducted last week, and the thing that's interesting here for us is we've beaten MoneySupermarket who historically have been very strong in this area. And that's contributing, in the short term certainly -- these things are very unpredictable, but that's contributing to the success of our efforts to increase margin in Confused.

The most exciting news I think from 2012 has got to be the launch of household insurance, our first major diversification in the UK. It came in December so it's only been operating for a short while. At this juncture essentially it's a price comparison-led marketing strategy. There's a three tier product, and I've taken a screenshot from Gocompare here to illustrate that, with Admiral, Admiral Gold and Admiral Platinum.

Obviously, early days; nothing to say about performance at all, apart from we're very glad to see it launched and working.

An important thing to say though, in line with our commitment to the use of reinsurance as a source both of risk minimization and of capital efficiency, we have signed long-term reinsurance arrangements with two of our key reinsurance partners, Munich Re and Swiss Re, with Admiral currently retaining 30% of the business.

So in summary, top line prospects not very exciting because we're making decisions which are profit[ph] maximizing decisions, not volume maximizing decisions. Looking for increasing reserve releases, if claims remain stable, to support bottom line, and focused in 2013 on laying foundations for what in 20 years' time might -- will be looked back on and considered the key event of 2012, the launch of our household business.

Thank you. I'll hand you over to Henry to talk about International.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, David. This slide shows you the growth of International over the last few years, our non-UK insurance subsidiaries. And the point of the slide is to show you that 88% of the vehicles insured are actually in the UK; that International is still quite small.

It is growing, as you can see. We were 6% of the vehicles in 2010; we're now 12% of the vehicles in 2012. So it is growing, but it is still quite a modest part of what we do.

We're in four countries, Spain, Italy, the US and France. I'm not going to go through this chart in detail, but just to put a little bit of color on the countries and explain a little bit about where they're at.

Spain, it is a profitable market for the insurers. However, premiums are down some 6% 2012 on 2011; less people taking insurance, a little bit more uninsured drivers perhaps; and people trading down in cover, part of the economic problems in Spain.

So it's a shrinking market in terms of premiums. There are some new players that are quite aggressive as well, so it's a funny market because the existing -- the incumbent players are making quite a lot of money but the newest start-ups are losing quite a bit of money and are very aggressive.

There's also a little of less shopping going on because there's very little movement in cars. There's new car sales way down and used car sales, which knock on from that, also way down, and that was traditionally a shopping moment for Spanish consumers.

So economic stress pushing shopping in one direction, less movement in vehicles pushing shopping in the other direction; sort of a little balance there.

Italy. Rates are now falling in the Italian market. The Italian market is characterized by lots of new regulations, both in insurance and in labor law. But the uncertainty due to the recent election, which has left Italy without a strong government, leads to a lot of uncertainty into what will happen to those changes in the insurance industry. So there's a lot of uncertainty in the Italian market.

Directs have gained a lot in the recent up-movement of their cycle, some 15% growth over the last couple of years, and now have about 9% of the market.

The US. Some small price rises going through the US market. Direct continues to grow. A lot of faith being showed in the Direct channel, as illustrated by Allstate's purchase of Esurance and the sale of the general to a regular insurer. So there seems to be a lot more appetite for Direct than there used to be.

France; combined ratio of 103%[ph]. Even with some investment income, it's not a great return on capital. But there's no market panic, and there are just some very modest price hikes going through the French market at the moment.

Now this is where we're at, and I recognize that you would all like a lot more detail about our International businesses, but, sorry, we're not going to be giving more details. So when it comes to the questions, don't -- hey, what about the blah-blah market? Sorry, we're not going there.

These are young businesses. Individually, they are not material to our results. We don't feel that we should give out information to our competitors. And when these businesses become material, we will be happy to provide you with more details.

All the numbers seem to be growing, and that's both a good thing and a bad thing. The policyholder number, as you can see, is up quite substantially, some 42%. The expense ratio though is up 3 points.

Now this is a funny number because each individual expense ratio actually went down in 2012 over 2011, but because we're doing a lot more growth in the younger markets, the younger markets being the US and France, the expense ratio as a whole has actually risen because it does take more expense in those early years.

The loss ratio is also up. I would say we're not hugely happy with this result, and it is an area where we can and intend to do better. There are three main causes. One, again, the young businesses are less stable with their loss results. A lot of new business, as you can see from the chart on the left, and new business generally drives a higher loss ratio than with renewal business, and there has been some back-year reserve strengthening in the older businesses.

All in all, I would say International is work in progress. We're pleased, but we know we still have a lot of work to do. As we've said before, the payoff period is some six to 10 years. Our oldest business is just a little over six years old now, so still quite some time to go.

Price comparison, on the other hand, had a very good year. As you can see, a big increased number of quotes from our two non-UK price comparison sites, LeLynx in France and Rastreator in Spain, and the GBP5.4 million movement in the bottom line on the positive side. So just a very small loss coming out of those two sites in 2012.

And so good, we've decided to take it further afield. We are launching a price comparison site in the US called Comparenow.com. This will be European-style price comparison, and when I say European style as opposed to, say, American style, in America, there are quote price comparison sites, but actually, you put all your details in and then seconds later, you are bombarded with phone calls and emails basically for the rest of your life.

What we will be providing is actual quotes that can be bound. You can click straight through to the insurer; you can click through on their websites or call them, and you will get price comparison.

We have a beta version up and running. What does that mean? It means you can go in and put your details in and you won't actually get anything. We do -- we are active in one state with one insurer at this very moment, so I leave it to you to try. It's 50 states, remember, plus Washington DC counts on its own, so you can have a go and see if you can find the one state and one insurer that we actually will give a quote for.

So there's a lot of work to do in 2013 to bring this up to speed, and that's what we intend. 2013 is a get-it-going kind of year. 2014 is where I think you'll see quite a bit more investment in this operation. But we do feel from the consumer research we've done that there is great latent demand in the US for such an operation. And we do have the head of that operation in the audience here today, Andrew Rose, so if you do have any questions afterwards, please accost Andrew.

What's the total bottom line? Well, GBP24.7 million negative in 2012. That represents 7.2% of the profits. That number is an output, not an input. We don't target a certain number. We don't say this year we're going to spend 8% of our profits or 4% of our profits. We give these businesses each the amount of money we think is necessary to create growing profitable sustainable businesses. That's our intention. We don't try to starve them, but at the same time, we don't rush out with a GBP50 million spend in the hope that we will gain traction in the market.

So for the GBP24.7 million, you did buy four insurance businesses in very large markets, two PC businesses, and the pre-launch costs of the US price comparison business. So we think you actually get quite a lot of bang for your buck.

Where are we headed? Well, looks something like this. Growth, we are looking over the next 20 years for more profitable growth in the UK. Clearly, we think there's still growth in car insurance. Obviously, there's massive amount of growth in home insurance, since we can still name all our policyholders by first name.

Internationally, we're looking to create growing profitable sustainable operations. Expansion is possible over the next 20 years. We're in no rush. This will be as and when it's deemed necessary, and then opportunistic.

The markets we're in have some GBP170 billion of premium income, and we've got a little more than GBP2 billion, so GBP168 million to go, so plenty to shoot for without having to expand further afield.

I leave you again with the highlights of our 2012 year. We've added one more bullet to this slide. We were recently named the 11th Best Company to Work For by the Sunday Times in the 250 to 5,000 category, and we came in at -- I think we were 4,970[ph] in that category so at the upper end, and we're very proud of that. We're also number one in the Great Places to Work competition, and we're very proud of that, and we're proud of the effort that our staff give us every year which helps create the record results that we have once again produced.

Thank you, very much for your attention. If we could open now for questions and, Greig[ph], go ahead. Is there a mic? Yes, there are mics coming. Two questions at a time though, if we could start like that.

Questions And Answers

A - Greig Paterson

First question is Telematics. I wonder if you can just give us an update of what you're doing there.

And the second one is gender neutral. There's obviously some increased activity in the final quarter and the First Quarter of this year. I was wondering if you can give us an idea of now that you've implemented your strategy, what your strategy was and tactical strategy, and does it mean we're going to have a fall-off in the Second Quarter? Some color around seasonality if you could --

A - Henry Engelhardt {BIO 3022947 <GO>}

Telematics and gender, yes? David, do you want to --?

A - David Stevens {BIO 6807391 <GO>}

I don't think there was actually. If you're referring to shopping activity, there was only a marginal increase in December. It was very hard to persuade women that they should pull forward their inception.

And there's been perhaps a marginal increase with -- in the first half, in the first few months with young men seeking to take advantage of new rates, but it's much less than one might have supposed. The general UK population isn't that interested in car insurance.

What we've done is we've sought to compensate for the loss of predictiveness that is inevitably implied by the loss of gender as a rating variable. It's very early days, and I think people are constantly changing how they respond, but we're comfortable that it's really going to be profit neutral for us at this point.

Telematics is a clearly very interesting technology, very complicated to bring to market successfully as a mass-market product, and we continue to test a number of permutations.

Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield, Barclays; just one quick question. If we go back a few years, Kevin, about the reserving strategy and that you took a very explicit decision to reduce the size of the buffer because of your comfort around volumes, but also a little bit of pressure around that stock of pent-up profitability that was inferred by the profit commission as well as reserving, I guess the wobble last year has made you feel a little bit different about that and the nature of the uncertainty around reserving.

But the other part of that equation, the auditors and the thought about the stock of profitability that's potentially locked away, has that pressure gone away now, or do they feel the same nervousness that you obviously felt or feel about the uncertainty there?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, I think you've described it very well, Andy, and that's exactly right. That was the way I think it has gone over the last couple of years, and we do have a view now that we'd rather be at the top end of the range of prudency.

As long as we're within a reasonable range of prudency, I think our auditors would say, and I'll speak on their behalf, I shouldn't do that, but that that's a reasonable position to take.

I think the discussion is that we're towards the top end of what players in the industry might be doing in terms of degrees of prudency, but we're not an outlier in an extreme way in any way. So it is very contextual, and the surprises we saw in 2011 have led to our thinking as it is today.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas; a couple of questions, if I could. The first one's about the outlook for UK motor turnover. I can see on the slide in front of me the Group vehicle count's GBP3.55 million. I think it was GBP3.55 million at Q3 as well. Given the International business is growing strongly, does that mean the UK vehicle count effectively in Q4 slipped a little bit?

And so in terms of 2013, are we saying very modest growth in UK vehicle count but a headwind of the accrued decline that you've highlighted from the index, albeit not the full 13% that you've talked about? So what I'm trying to do is basically see where the UK top line is going to next year; if you can help me with that at all.

Just quick data request number. AVIVA disclosed that 92% of the personal injury claims were settled involving a lawyer, which is obviously extremely high. Just quite curious what it is for you.

And the third question is on the International really, the International losses that you show, that you've built up. Presumably, there's an equal number sitting with Munich Re before any profit commission is paid. Should I just add those up and multiply pro rata, or is there any assistance you can give me in terms of calculating how much accrued losses there is on International profit share commission?

Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

To do the easiest one first, percentage of claims settled without a lawyer, not something we disclose .

The other one was about volumes. Yes, 2% for the year, but marginally down in the last quarter, I think, in the UK.

Projections for 2013; all we're saying is we made the right choice for profitability. So it's not going to be a big number but it's going to be flexed depending on how the market evolves.

And, yes, I think it is the case that you've got, in terms of financials as opposed to volume, you have got the average premium in fact, which is going to feed through continually in 2013.

A - Henry Engelhardt {BIO 3022947 <GO>}

On the International, it's bit more complicated than that, because in the US and France, Munich Re is only a smaller proportion. So if you want to do all reinsurers as bulk, it was two-thirds/ one-third. We're one-third and all reinsurers are roughly two-thirds. But it's not all Munich Re.

Q - Andy Hughes {BIO 15036395 <GO>}

I'm delighted to see that you're building profit sharing into the International projections there though . Thank you for that.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Could I take you back to slide 18 where you gave us the average premiums in the UK market? And could I ask what happened to average claims and to frequency so that we can build the picture?

And then a second question, if I could take you to slide 9, can we do that? Let's -- just average claims and frequency on that one.

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, this is Admiral's average claims, and obviously not the market.

Frequency in 2012; I mentioned that the market was positive. It was positive for us as well, so there was a material fall in 2012 versus 2011.

Average claim; you'll see in the appendix that 55% of our claims are larger bodily injury, and they continue to have substantial drivers of underlying average premium inflation, but it's very difficult in a sense to say, look, the number is 6.2%[ph]. It's a very volatile number year by year, and it's very -- I'm not sure it's something we're going to disclose to say the premium inflation, the claims inflation was X in 2012, partly because it remains to be seen what it turns out to be.

Which slide now?

Q - Andrew Crean {BIO 16513202 <GO>}

Slide 9. You've said that you increased your buffers over the ultimates. Can you give us some sense of what that is? Because quite clearly, where you sit in that horizon is entirely dependent on how much you stuff into your buffers.

A - Henry Engelhardt {BIO 3022947 <GO>}

You can see some of it in the appendix where you can compare the ratios against the booked off-hand.[ph] Which slides are these[ph]?

Q - Andrew Crean {BIO 16513202 <GO>}

Do you have any pounds million number which we could just hang our hat on?

A - Henry Engelhardt {BIO 3022947 <GO>}

No, we don't disclose the pounds million number. The numbers that we do provide aren't exactly comparable, so you could make a stab at it.

A - Kevin Chidwick {BIO 15100612 <GO>}

It might be worth mentioning that to be fair on the analysts, when they did those projections a year ago, they didn't know about also the vehicle commission change which equivalent -- was essentially an accounting change that took GBP16 million off the profit.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Securities. Can I ask two related questions? Firstly, on the consolidated income statement on page 21, the biggest growth there is the insurance claims recoverable, which I think grows 24% to GBP524 million, and that's faster growing than any other item. And I think it's probably linked, but on page 43 in your reconciliation of movement in net claims provisions, the standout item there is the movement in claims provisions due to commutation, GBP44 million to GBP102 million; again, big movements there. And it looks like your net claims paid, if you add the two together as you showed last year, is virtually flat.

I just wondered what's going on with your commutation and claims recoverable from reinsurance. Is this a new ongoing level, or is there an element of one-off in there that's not going to be repeated?

A - Kevin Chidwick {BIO 15100612 <GO>}

I think we probably should take the detail offline, Marcus, and go through. It would be helpful, I think. But in terms of commutations, it will impact the reported numbers when they occur, and they typically occur within 24 months, 36 months post the completion of the year. So there's nothing -- there's a one-off this year that would be distorting the numbers, so it's --

Q - Marcus Barnard {BIO 2103471 <GO>}

There's nothing -- one-off?

A - Kevin Chidwick {BIO 15100612 <GO>}

Not that I'm aware of, I can think of that we just --

Q - Marcus Barnard {BIO 2103471 <GO>}

So that's a normal level going forward?

A - Kevin Chidwick {BIO 15100612 <GO>}

The commutations are a normal behavior and they would typically happen around that period. That's correct. So there shouldn't be anything -- this is an ongoing thing. But in terms of the detailed numbers here, I think probably better if you and I discuss that.

Q - Marcus Barnard {BIO 2103471 <GO>}

There was no real reason why the commutation grew 2.5[ph] (inaudible) year on year?

A - Kevin Chidwick {BIO 15100612 <GO>}

Nothing I can think of in my head that can give you a good answer to that right now.

Q - Marcus Barnard {BIO 2103471 <GO>}

All right.

Q - Simon Denison-Smith

Simon Denison-Smith, Metropolis Capital. I was wondering if you could compare the challenge and experience you're having of growing the International business by comparison to starting the UK business 20 years ago.

A - Henry Engelhardt {BIO 3022947 <GO>}

Very different. When we came into the UK business in 1993, it was God's gift to car insurers. You may remember that the late '80s were characterized by, was it, hurricane Andrew eating up a lot of capital in the insurance market. Then you had mortgage indemnity problems. You also had a horrific car insurance market in the early part of that decade.

So 1992, rates started to skyrocket, and we walked in 1993 with no back-year liabilities and in a very rate-rising market. And I've got a rabbit at home that could have underwritten a successful book in 1993.

Saying that, we were the 7th direct writer in. We weren't the first, we weren't the second; we were the 7th. And about two or three years later, there were 22 direct writers, all with business plans that said you'll bleed for a while and then it's going to be jam tomorrow. And they got the first half of their business plans right, and a couple of years later, we were back down to seven, and the market was horrible.

And you may remember '98/'99. '98 was pretty horrible and everybody said this has got to turn, this has got to turn. And the beginning of '99 it seemed to get worse and everybody said it will never turn; car insurance will always be unprofitable.

We remember those days well because we were put up for sale by our parent company in '98. The deal didn't go through, and when we came they put us back on the market in '99, nobody wanted it; half the values that had been discussed in '98. We did take the liberty at that point to buy it ourselves teaming up with Barclays Private Equity, which has now broken off from Barclays.

And it turned out to be a pretty good moment, because rates were actually going up, particularly in the back half of '99, all through 2000, and probably the first half of 2001;

very similar to the cycle we've just had which was the back half of '09, all of '10, and a good part of '11, and maybe well into '12 a bit, where prices went up quite dramatically.

The International businesses aren't in the same environment. Sorry, if that was the question. And the most similar would be the Italian market, where we have enjoyed during our few years there price increases in the market.

But the Spanish market's been very tight. The French market doesn't move a lot, it's very, very slow moving. And the US market hangs around 98/99[ph]. Is that fair to say? Traditionally year in, year out, with differences between the states. So very different environments that we're moving into.

Q - Simon Denison-Smith

What about the competitive environments in those?

A - Henry Engelhardt {BIO 3022947 <GO>}

Again, quite different. We're seeing good growth in direct writing in Italy. We're seeing good growth actually in Spain, and good growth in the price comparison side. So we do see change in all these markets.

America, of course, is already very big on direct writing, GEICO being the third largest insurer, with premium income not all that far from the entire UK market, to give you a scope of their size. And they spend well over $1 billion in advertizing each year. So there's certainly a lot of energy being put behind the growth of direct as opposed to agent-led insurance buying.

So that's one of the things, the very simple --. If we sit in this room in five or 10 years, you'd be very surprised to think that Internet wouldn't be a bigger portion in those countries of people's buying habits. And we're positioned in the right place; no channel conflict, and right in where the younger consumers are going.

The younger consumers are interesting, because in the UK, you have named driver insurance policies, but in other parts of Europe, you basically have any driver insurance policies, which means that the 22-year-old doesn't go out and buy his own policy because he'd be rated as a 22-year-old. He just jumps on mom and dad's policy because they don't even know he's there, because they're writing any driver. So the cost of that 22-year-old is spread amongst the whole market as opposed to being isolated into the 22-year-old as it is in the UK.

So younger people don't actually take their own insurance policy until they hit 25 plus, and they move away from mom and dad and start their own lives. It's a bit of a different situation in terms of the younger driver and, therefore, the generational change to the Internet is going to be a bit slower.

Q - Ravi Tanna {BIO 16926941 <GO>}

Ravi Tanna, Goldman Sachs. Just a couple of questions, please, if I may. The first one relates to the claims environment in the UK. Obviously, we've seen a lot of reforms coming through in the last weeks and months; the reduction to personal injury, lawyers fixed fees and the consultation on whiplash. And I was just wondering perhaps if you could comment on the general outlook on that front in terms of claims inflation, and in particular, whether you've seen any change in the behavior of competitors in anticipation of changing claims trends.

And the second relates to your ultimate loss ratios, and I understand that there is a certain degree of volatility year to year. But with your 2009 and 2010 accident year ultimates being at very elevated levels, and your 2011 coming down to 69% now, I was just wondering whether there's any kind of favorable one-off within that 2011 accident year number.

Thanks.

A - Kevin Chidwick {BIO 15100612 <GO>}

If I start at the end and perhaps take you to 42 in the appendix, I think it's 42, with the loss ratio on left-hand side. On reference to 2000, and I've just partly made the point that very elevated for 2009 is a function of the fact we live in a cyclical market, and it's clearly not very elevated in the context of the market.

In terms of 2011, is there a one-off or a weird thing? Not really. It's the price increases feeding through. There has been -- there was a benign frequency year, and frequency is always unpredictable, although it tends to trend towards. But these are -- there is no back-year movement affecting '11, in a sense, because these strip out all the back-year movements.

In terms of the reforms, I think that there has been at the back end of '12 some positive view taken of the panoply of reforms that are in place in relation particularly to whiplash. And specifically, when the Government came out with the recommendation that the portal fees should go from GBP1,200 to GBP500, that was clearly a more radical move than had been anticipated, and led people to people that some of the other stuff that's following behind around small claims, around medicals on whiplash, all those sorts of things, may -- there was less cynicism about whether they'd come to fruition.

Now how material is it? In the back pages on claims, you'll see for us small bodily injuries is low double-digit percentage of claims. So the impact of whiplash reform is somewhat restricted by the fact that actually the bulk of our claims and the market as a whole is[ph] big bodily injury. But having said that, if that reduction from GBP1,200 to GBP500 was effective and applied across the market, and the lawyers failed to find ways around it, and that is a big proviso, then because legal costs represent almost 50% of small bodily injury, that is a very substantial move down in cost, which we would say would equate to around 2% of overall claims costs.

Then you might also get a frequency benefit because the profits built into the system are reduced and, therefore, the motivation to actually chase claims is reduced. But there are a lot of ifs in there, because a lawyer's ability to navigate around to maintain income is fairly well established over time.

Q - Tom Dorner {BIO 15847486 <GO>}

Tom Dorner, Citi. Two questions, please. The first is on the change in mix of the UK business. Obviously, as you shift towards renewals business, that tends to be higher profitability. Can you give a sense of how much of a benefit you might get from that business mix over the coming years as the growth slows?

And then the second question is on the reserves strengthening in the international business. Can you just say -- is that a one-off in your view, or is there a --? Perhaps some more color around that would be interesting.

Thanks.

A - Kevin Chidwick {BIO 15100612 <GO>}

The -- do you want to do International first?

A - Henry Engelhardt {BIO 3022947 <GO>}

The reserves strengthening; whenever anybody does a reserves strengthening, one always hopes it's a one-off.

A - Kevin Chidwick {BIO 15100612 <GO>}

Great. Sorry, are we done?[ph]

A - Henry Engelhardt {BIO 3022947 <GO>}

I'm done .

A - Kevin Chidwick {BIO 15100612 <GO>}

Had a moment there. You're right. The renewal business is more profitable. The loss ratio is typically early double digits better. And that shift in mix, because I've indexed it 96[ph] to 114[ph], or something, if you try and work that to the mix and new business renewals, it equates to 1 point or 2 on a loss ratio.

Q - Cameron Hussein

Cameron Hussein, RBC. Just a couple of questions, again coming back to International and the business mix. Could you give us an idea of what the underling combined ratio was in International when you strip out the impact of the reserve releases?

And the second question, just thinking about the change in business mix towards more renewals versus new business, is there any impact that you might expect on other revenues per policy?

Thanks.

A - Henry Engelhardt {BIO 3022947 <GO>}

No, we don't strip out the surplus.

Q - Cameron Hussein

What would it look like on a --?

A - Henry Engelhardt {BIO 3022947 <GO>}

We don't give that information.

A - Kevin Chidwick {BIO 15100612 <GO>}

And there isn't really a material difference between new business and renewal on other revenue.

Q - Will Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, Bank of America. Just looking at the ultimates in the books, for 2011, it's reduced about 5percentage points; the ultimate loss ratio in the book, only by about 1 point more. Can I broadly assume, and I know there's a bit of a mix on those too, that all prudency effectively baked in the 2012 number, is that increasing the buffer to your reserves?

And the second question is what's driven around 10% increase in IGD given that UK volume growth has been fairly low in the year?

A - Kevin Chidwick {BIO 15100612 <GO>}

I'm a little bit confused on the buffer question, but I think with the way I might answer it is to say that the buffer increased the half year and again at the full year, and that effected in a sense all years to some extent.

So for example, I mentioned in my presentation that 2010 and prior was flat or slightly better in terms of the ultimates. If you look in the accounts, you'll see that the incurred appears to have gone up on 2010 and prior by GBP5 million, which is all about the increase of the buffer. So it's not just a 2012 year effect, if that's what you're --

Q - Will Hardcastle {BIO 16346311 <GO>}

No, what I'm trying to get to is the fact that if we're to look at the two charts on 2011 accident year, that ultimate loss ratio is decreased 5 points year on year, so from 74 points to 69 points; and your booked has decreased by 6 points, if I remember offhand. And yet you've still -- so that effectively means that you haven't reduced your buffer at all from those -- or you haven't reduced the buffer on that accident year at all. And then you've baked in significant prudency on the 2012 number again, if we're looking at the book to ultimates. So it seems as though you're not really releasing any of the good news and building complete news on to the buffer. Is that correct?

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, that's one way of saying it. That's exactly right. Effectively we would -- if we had not seen any improvement in the 2011 year, if our predictions had been entirely correct a year ago to today, we would have expected to make some releases in 2011 and reduce that buffer. We've been able to make something of a release from '11 but still maintain the majority of that buffer.

And on the IGD point, I think the capital position at the end of the year versus the start of the year is partly a reflection of building up capital for the capital we anticipated needing in 2013, which we started to hold at the end of the 2012 year; but also, a reflection of the mix of the capital. So it's partly the capital of our UK business, but also the capital required for our European operations. And those operations have disproportionately high capital requirements related[ph] to their scale compared to the UK, so you'll see a bit of distortion going on in those numbers.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay, very clear.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg. Just on the reinsurance treaties that you have, I guess in previous years we would have had the extension of those contracts at this point in time. So you're probably hard at work negotiating those, and there may be a limited amount you can say. But just in terms of how the UK market has developed, and we've heard some cautious statements from some reinsurers, has any -- have any of the variables changed there in terms of how we should expect or think of those, the extension of those treaties?

A - Henry Engelhardt {BIO 3022947 <GO>}

It's actually your premise that's incorrect. If you go back other than last year, it was actually after our full-year announcement that we sewed up the deals. Last year was the aberration. We came earlier last year with the reinsurance. It is work in progress, and at the moment, there appears to be plenty of appetite.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. The first question; you may think it's a bit strange me giving you a hard time on expenses, but if I look at the top line growth, it's at 1%. If I look at the salary costs during 2000 and staff costs, they're up nearly 20% from 2011 to 2012. And obviously, you would expect the expense ratio to fall if you're writing less new business because you're not paying GBP50 or GBP40 to price comparison websites. So I'm just wondering, should we expect effectively an ongoing increase in staff costs, like a catch-up effect of you versus the industry? And can you basically explain what's going on with the underlying staff costs and the business?

Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, I think it's fair to say that if we see no premium inflation or premium deflation for a number of years in a row, then you're probably going to see some pressure on the expense ratio going forward, for us and for the whole industry. And that's typical. And in fact, if you do look at that expense ratio, and you squint carefully at it, you can see a degree of cyclicality in the expense ratio, even though it looks like it's flat 26%[ph] right through the cycles.

But on the specific point about staff expenses, of course, the number in 2011 is the average of the staff costs right through the year. We've built staff up during 2012[ph] significantly as we had that growth that we saw in '10 and '11. So you'd expect that particular number to flow through into the run rate in the 2012 staff costs number.

Q - Andy Hughes {BIO 15036395 <GO>}

Would you[ph] expect the expense ratio to trend up as you build up the staff in line with your peer group? Because 26% is actually[ph] exceptional.

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, it was exceptional. It was exceptional because of the staff growth that we saw in 2011 that flowed through into the costs in 2012. I wouldn't expect to see a similar number in '13 unless we saw some significant growth in activity in '13, which we're not currently anticipating.

Q - James Pearce {BIO 16758460 <GO>}

James Pearce, UBS. On large bodily injury claims, one of your competitors referenced lower propensities to take up PPOs as people waited and saw what would happen with the Ogden[ph] review, if I can call it that. Is that something you've experienced, and is that anything to do with the improving development of the 2011 year end[ph]? Was that to do with large bodily injury, or was -- could you be more specific about what happened there?

A - Kevin Chidwick {BIO 15100612 <GO>}

To the second half of your question about whether improving PPO trends have contributed towards improvements on the 2011 loss ratio, the answer to that is, no, because the vast bulk of PPO in our projected ultimates is about future expected PPOs. We've actually had still a very modest number of PPOs. And so it's all about the underlying assumptions of how many we will ultimately have.

And those are not less cautious; possibly slightly more cautious than they would have been at six months or 12 months ago. So in fact, there isn't a positive benefit from the PPO effect.

And I think it is very early to make a call on PPO. What you have seen is an encouraging flattening out of the growth of big claims that settle at PPO. But you're talking about tiny volumes, and it's dangerous to take an optimistic view at this point on that.

Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield, Barclays. I wanted to understand a bit better on the outlook for the US price comparison site. If you'd rather I did that offline, I can, but just your thoughts on gathering issuers onto that, given there's a couple of very big direct players who I think are very, very reluctant to go on any comparison sites, and then the rest I think it strikes me who have major channel conflicts.

So for you, is this going to follow the same pattern you've seen in Europe and the UK where there's big reluctance, big reluctance, and then an avalanche, or how do you see that evolving?

A - Henry Engelhardt {BIO 3022947 <GO>}

It really is a very interesting area, and you do have it in the US, and, yes, it is similar to -- what we're seeing is similar to Europe where you have a few of the bigger but not the biggest guys are interested. The smaller guys are quite interested, but you're right, some of them can't. And eventually, the growth will draw in the rest. That's the pattern in Europe.

That was Confused pattern. Confused didn't start with a brilliant panel. It took a couple of years. Rastreator are the same. LeLynx, maybe a little bit better at LeLynx, but similar.

So you have that in the US. And you do have a very interesting dynamic in the US in that you have these four big players who together spend not far from $4 billion -- nod your head, Andrew, if I'm in the right number -- $4 billion in advertising, and everybody else has to figure out a way to beat them.

And so for everybody else, this is potentially magic, because they don't have to spend a lot of money in advertising. Compare now can spend a lot of money in advertising and do the job for them. So it is an interesting dynamic, but you're best to talk in more detail with Andrew sitting absolutely right behind you when we finish here.

A - Greig Paterson

Greig Paterson. Just in terms of this accounting change, my understanding is that added some percentage points to the expense ratio this year, and potentially next year as well. I wonder if you could just talk about that.

And it was also my understanding beforehand that there would be no impact on the profit commission, i.e., you were just going to add something to the premium, and then you were going to deduct from the expense and there would be a timing difference on the other or ancillary policy. Can you just elaborate a bit on why there's a change to the profit commission formula from this account -- or expected profit commission from this accounting change? So actually (inaudible) percentage points and why the profit commission.

A - Kevin Chidwick {BIO 15100612 <GO>}

I'd refer to 46 in the appendix which gives an explanation of the business with and without vehicle commission. And then I would also say we'll give you more support on modeling that at the half year for --

A - Greig Paterson

Is it material (inaudible)?

A - Kevin Chidwick {BIO 15100612 <GO>}

It's not material to the bottom line.

A - Greig Paterson

But in 2014/'15, is it going (inaudible).

A - Kevin Chidwick {BIO 15100612 <GO>}

It's not material to the bottom line. I don't think it's that material actually to the distribution between the components. But I think a conversation with Louise would be more helpful than doing it en mass here.

Q - Trevor Moss {BIO 1741504 <GO>}

Trevor Moss, Berenberg; a couple of things. If I understand it correctly, you've had a fall in the ultimate loss ratio projection for 2011, I think, yes? Around half of your claims are large bodily injury, if I understand it correctly. What is it that has happened so dramatically in 2011 to cause the ultimate loss ratio projections to fall so dramatically when a large component of that, the largest component of that potentially is large bodily injury, which takes years and years and years to develop? I'm very interested in what's happening there.

And the second thing is crucial to the development, I think, of Admiral in 2013 is the dynamics of the market in 2013, which you haven't said an awful lot about. The question on Telematics from Greig earlier on was answered in one sentence. However, Telematics is targeting specifically one of your core, most profitable areas of business, and so high-risk drivers. So I wonder whether there's some more to be discussed on Telematics, because there's a lot of Telematics companies growing quite fast.

Also, now we have Direct Line fully multi-branded on price comparison, Aviva fully multi-branded on price comparison, what is that going to do to the market dynamics? What's that going to do to your dynamics? I think there's quite a lot to talk about in terms of 2013 dynamics in the UK market which you haven't yet.

Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, let me pick up on the 2011 loss ratio point, and I'll leave David to comment on the UK market this year and beyond.

It was the case that we saw an unusual spike in large BI claims in 2011, which has been much talked about in the past. And in the nature of actuarial projections, when you see data that looks outlier[ph] and it's potentially bad news, the extrapolation from that is that that trend, it's becoming a trend rather than a spike. And so when we do the projections for 2011, at the end of 2011, you're going to see an increase in the projected ultimate loss ratio.

But if in the fullness of time those events turn out to be a spike and not a trend, then of course you unwind then your projections of ongoing trend, and you put it back into this position as a spike. And that means that then your new projections you're now doing going forward don't include all those new big claims that you might have anticipated being a trend.

So effectively what's happening is changes in projections based on more relevant data over time, it's changing the increase in loss ratio projection that was to a now reduced position. So that's what's happening, and of course, it happened in the course of 2012 with the projection.

Q - Trevor Moss {BIO 1741504 <GO>}

So you (inaudible)?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, that's -- in fact, it's now being isolated much more as a spike than it was at the end of 2011.

A - David Stevens {BIO 6807391 <GO>}

You mentioned Aviva being fully active on price comparison, and RBSI being fully active on price comparison. Essentially, Aviva became fully active with the launch of Quotemehappy about 24 months ago. So I don't think there's new news there. They're a player in 2013.

RBSI has been active on price comparison sites, with the exception of Compare the Market, for a number of years; and then last year, quarter 2, I think, went onto Compare the Market, and so is now fully active on all price comparison sites. That's not new news for 2013.

So I don't think those factors are hugely material. I think there's a continued -- there's a likelihood of some players wanting to increase their market share still in 2013, partly because people do tend to look at reported results rather than current profitability when they make their calls.

And so we're not very optimistic about when premium inflation will return to the UK market. We're not projecting substantial premium inflation in 2013; maybe some further drifting down even.

Telematics. Telematics are most relevant to the young market. If I had anything interesting to say about it, I wouldn't say it.

Q - Trevor Moss {BIO 1741504 <GO>}

Well, would you not be prepared to say what you're doing?

A - David Stevens {BIO 6807391 <GO>}

Not in any interesting way. It's a fast-evolving sector that where the balance of interest of our shareholders I think is for us to be discreet if we feel we're learning interesting things which have implications for the future.

Q - Trevor Moss {BIO 1741504 <GO>}

Okay. If I could just have one quick follow-up. If I saw your graph correctly, I know it's a hypothetical graph with a steeply rising arrow, shorter, sharper cycle upwards, I'm not sure which graph it was in the presentation, but it was definitely like that for the market combined, yet you're talking about a general drifting of prices.

But I think, having talked to some other players, there is a little bit of a question mark over whether prices are just drifting lower or are heading lower quite rapidly. My own conclusion would be the latter actually rather than drifting. What gives you confidence it's just drifting lower rather than rapidly going lower, especially since your graph has a fairly expediential rise upwards in the market combined?

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes. I hope you'll look at that exhibit and not just see it as a projection.

What I would say is I think people get over excited about short-term premium movements. At the end of the day, this is a cyclical market that breaks even over the course of the cycle. And so is substantial premium deflation now a problem? Not really in the long term, because it just means you'll return to premium inflation that much earlier. So it's all about timing; it's not really about true economic impact.

Now unfortunately, the world we live in people tend to look at a one or two-year projection, whereas in fact they might logically if they're trying to understand value look across cycle. But from our point of view, we're very relaxed with whichever outcome takes place.

Q - Marcus Barnard {BIO 2103471 <GO>}

One quick follow-up. In terms of financing your Group dividend, has this all come from EUI like it did last year, or have you paid a dividend up from the insurance subsidiaries, AIGL and AICL? Or will you take that offline?

A - Kevin Chidwick {BIO 15100612 <GO>}

No, the subsidiaries pay dividends regularly up to the Group as and when they've got spare cash emerging from profits that they're making over the solvency capital they need to hold. The majority of our cash, what's tended to emerge in EUI, and can be paid up to the Group in the same way that they would do when their profits are in excess of their solvency requirements, which are obviously much more modest.

So the answer to the question is that we shuffle up cash to the Group as and when it's available, and then from that, we pay the dividend.

Q - Marcus Barnard {BIO 2103471 <GO>}

Just in light of what you said about needing to build up capital for your IGD surplus. I'm assuming most of that would be in AIGL and AICL.

A - Kevin Chidwick {BIO 15100612 <GO>}

Correct.

Q - Marcus Barnard {BIO 2103471 <GO>}

I'm just wondering if that would impact your ability to pay a dividend from those subsidiaries last year.

A - Kevin Chidwick {BIO 15100612 <GO>}

No unless, only so much as the capital requirements are what they are. The real beauty for the Admiral model is the capital-light model creates a great deal of cash generation from profit sharing arrangements with our reinsurers where we get those profit commissions flowing back through which do not have capital requirements associated with them.

So it does mean that despite very fast growth over the last few years, we've been able to maintain a dividend in the 90% of post-tax profits, and that is because of that model not chewing up capital as we grow as an insurer.

Q - Andrew Crean {BIO 16513202 <GO>}

Can I just follow up on that? You didn't give when you were rationalizing the dividend the numbers around buffers and around the amount of additional capital that you require for the business you see in the next year. I wonder whether you could just supply those.

A - David Stevens {BIO 6807391 <GO>}

I think we've just for the purposes of presentation, we took away the calculation of the number. But the basis of the calculation hasn't changed, and the amount of the Group buffer hasn't changed either.

Q - Andrew Crean {BIO 16513202 <GO>}

So GBP25 million?

A - David Stevens {BIO 6807391 <GO>}

GBP30 million.

Q - Andrew Crean {BIO 16513202 <GO>}

But the amount required for new business does seem to change. When I look at it, look at projections forwards on premiums, the solvency margin does fling around quite substantially. Is that the European businesses?

A - Kevin Chidwick {BIO 15100612 <GO>}

Mostly it's to do with the European businesses and the blend between the two, and we obviously do our view on the UK as well. And also, of course, you have to bear in mind the difference between what we thought was going to happen a year ago and what really happened, and therefore we've got to adjust for that in our numbers going forward as well.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, BNP Paribas. A quick follow-up question on the commutations and the large claims stuff. One of my big surprises from last week in the Direct Line stuff was the increase in large claims reserved that they made following already what seems to be prudent large claims, which was largely met[ph] by the reinsurers. And you can see that difference between the gross and the net reserve releases with the net being massive and the gross being very small.

And obviously, Marcus raised the point that your commutations are quite big this year. So once you've commuted these reinsurance arrangements, are you fully on the hook for the reserve development of the back book? So if, for example, you had a similar issue where you had to revise up the large claims, presumably, that would give 100% to you the shareholders.

So who are the commutations with? Are they with Munich Re who share part of the losses, or are they with the reinsurers who only pay out if the combined ratio is more than 100%?

A - David Stevens {BIO 6807391 <GO>}

We're talking about commutations of proportion of reinsurance contracts here. We're not talking about excessive loss contracts. So I think it's actually two things separately[ph] in your mind and so there -- we are effectively through the profit commissions we're sharing largely on the hook for what happens with our claims development patterns on these years anyway, so the commutations and accounting adjustment to put it back into our balance sheet. The excessive loss contracts would still stand. So very large claims would (multiple speakers).

Q - Andy Hughes {BIO 15036395 <GO>}

But obviously, if you had a loss, on the (inaudible), it would be carried forward effectively; you wouldn't have to repay that then. But once it's commuted, you're on the hook for the full share, basically.

A - Henry Engelhardt {BIO 3022947 <GO>}

Yes, but not the Munich Re co-insurance.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. I thought the commutation was of the Munich Re. That's what you're saying, isn't it, or am I confused?

A - David Stevens {BIO 6807391 <GO>}

No, I'm talking about the reinsurance contracts, not the co-insurance arrangement with Munich Re. These are shorter-term reinsurance deals that tend to get commuted after two or three years, not the Munich Re deal, which the co-insurance, long-term co-insurance deal.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. But I thought you said quota share[ph]. I got confused by the quota, because I thought it was to stop[ph] loss rather than quota share. No, that's fine. So we'll take it off line.

A - Kevin Chidwick {BIO 15100612 <GO>}

Any other questions? Any questions from the telephone? No questions from the telephone. Going once; going twice.

Thank you, very much.

Operator

This concludes today's call, ladies and gentlemen. Thank you for joining. You may now replace your handsets.