Y 2017 Earnings Call

Company Participants

- John Reizenstein, Chief Financial Officer
- Michael Holliday-Williams, MD of Personal Lines and Executive Director
- Paul Geddes, Chief Executive Officer
- Penny James, Chief Financial Officer-designate
- Steven Maddock, Chief Operating Officer

Other Participants

- Alan Devlin, Analyst
- Andreas Van Embden, Analyst
- Andrew Crean, Analyst
- Arjan van Veen, Analyst
- David Bracewell, Analyst
- Dhruv Gahlaut, Analyst
- Grieg Paterson, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Ravi Tanna, Analyst
- Unidentified Participant
- Wajahat Rizvi, Analyst

Presentation

Paul Geddes {BIO 2474781 <GO>}

(Technical Difficulty) for joining us here at Goldman Sachs for our full-year results presentation, going into the detail behind the headline results we announced a few weeks ago.

And a bit of a break from our usual format, as I am joined not only by our outgoing but also our incoming CFOs. Today marks John's 22nd and final sets of results, and what a set of results to retire on [ph]. I'm also delighted to welcome Penny James, our new CFO as of Thursday. And Penny will be sharing some of her thoughts with you later. And as ever other members of my team are here in the audience. So without further ado let's kick off, as ever with the highlights.

2017 is the fifth successive year that we delivered a strong financial performance. Our clear strategy and determination to make insurance much easier and better value for our customers has been the driving force behind these results. 2017 was a great year for the Group. We grew premiums by 3.6% and within that our own brands were up 9.3% versus 2016; a great result and largely driven by another excellent year for our Direct Line brand.

Our continued focus on improving efficiency, combined with growth in Direct Own brands meant, we improved both the underlying expense ratio and the commission ratio. Operating profit from ongoing operations was GBP611 million, combined ratio was a very strong 91.8% and ROTE came in at 21.7%. This excellent set of results and strong capital generation means we are today proposing a final dividend of GBP0.136 and a special dividend of GBP0.15. Finally, our high-quality balance sheet is reflected in our solvency capital ratio of 162% even after those dividends.

I'm going to come back later in the presentation to tell you more about the initiatives, we're going to be taking to deliver our medium-term targets, and in particular, our technology plans to support them. So now for the final time, let me hand over to John.

John Reizenstein {BIO 6786139 <GO>}

Thanks, Paul, and good morning everyone. Let me give you an overview of the main features of the results, as ever with more detail in the prelim [ph]. As Paul said this is an excellent set of results, and the highest annual profit we reported in our five-year history as a listed company. We grew premiums again in 2017, up 3.6% with a particularly strong result in Motor. Ongoing operating profit of 610.9 million was 207 million higher than prior year which, of course, was impacted by Ogden.

At the profit before tax level, we delivered 539 million versus 353 million in 2016, including a net positive GBP33 million contribution from run-off and restructuring. Finance costs were 66 million higher due to a one-off charge relating to the successful debt refinancing action we took at the end of 2017. The combined ratio was 91.8%, nearly 6 points better than 2016 reported, and in line with 2016 pre-Ogden. And weather-adjusted combined operating ratio was towards the lower end of the target range.

Moving down to operating profit by segment, Motor and Commercial, which were impacted by Ogden in 2016 delivered significantly better results. This helped offset lower prior year end claims inflation in Home. Rescue and other personal lines profit was pretty flat.

Turning to premiums on slide six, strong momentum across our own brands during 2017 enabled us to deliver overall premium growth of 3.6%. This growth was predominantly driven by Motor, shown here in the dark blue, where our volume growth, combined with strong pricing, and Motor premiums were 8.5% ahead of prior year. Home premiums were down around 4% due to partner business although the picture here is looking up. We'll talk about that later. We continued to grow Rescue premiums shown in green. This was mainly due to our Direct Rescue brand, Green Flag. Finally, Commercial, where premiums were pretty flat. This reflects a strong year for Direct Line for Business, which grew premiums by 12% in 2017 helping to offset pressure on NIG, which was down 3%.

On the right, you can see the overall premium growth was driven by our Direct own brands with Motor, Green Flag and Direct Line for Business all reporting double-digit growth and Home was also ahead of prior year.

Looking at policy count, and in this chart we've highlighted our Direct own brand, which continued the growth momentum. Another year of strong growth overall, especially in our disruptive brands, Green Flag and Direct Line for Business, which were up 10% and 8% respectively, Motor grew policy count by 5.6%, which shows our unique propositions have been cutting through. Home grew little as well, up 2% which is a good result in a very competitive market. Elsewhere in the Group, in the broker channel, NIG policy count was flat due to disciplined pricing. Reduction in Motor and Home partner volumes continued in 2017 with our recent work with RBS NatWest is showing positive growth signs. Other personal lines policies were broadly flat as growth in Rescue linked was offset by Rescue partners and travel.

Looking at expense and commission ratios, I'm on slide 10, starting with the expense ratio, which is in dark blue. Growing premiums has provided us with the leverage to improve the underlying expense ratio in 2017. The reported expense ratio of 25.3% was flat versus prior year, but if you exclude the impairment charge in both year the underlying ratio was half a point better, and in line with our ambition to reduce the ratio over time. We incurred an impairment charge on IT of 56.9 million, and our total cost base excluding that increased by around GBP28 million in 2017. This was mainly due to higher levies linked to a higher premium. Flat staff and marketing costs alongside growing premiums, show we've been getting efficiency improvement.

The commission ratio shown in light blue was 9.1% in 2017 and 2.4 business points better than the prior year. About half of this improvement reflects changes to business mix and new partnership arrangements. And the other half relates primarily to differences in weather, escape of water and prior year as these automatically flow through to partners via the commission line. Overall, we're pleased with the ratio improvement we delivered in 2017 and are confident that we can deliver on our ambition to lower these ratios over time.

Moving on to the loss ratio, the headline loss ratio improved by 3.5 points to 57.4% mainly due to movements in prior year reserve releases. As for the current year loss ratio, which excludes weather, this was stable. At a segmental level Motor delivered a strong improvement in current year ratio, which was offset by higher ratios in Home and Commercial. Prior year releases remained significant at 392 million or 12.4% of earned premiums. This was lower than recent years, although higher than 2016, which was impacted by the Ogden rate change. Home weather was benign again in the second half taking the total for the year to GBP13 million against the budget of 65 million. I note that the weather load for Home for 2018 is GBP55 million reflecting lower volumes as Nationwide runs-off and the Commercial weather load for 2018 is GBP20 million.

Overall, we improved our cost and commission ratios, while holding our attritional loss ratios steady. So have successfully delivered what we set out to do namely to improve current year profitability. We expect this trend of improving the contribution from current year to continue over time. Over time the balance between current year and prior year will shift within our 93% to 95% medium-term combined operating ratio target. The point where this re-balancing reaches maturity is several years away.

Looking quickly at operating profit, here you can see total ongoing operating profit increased by 207 million to 611 million due to significant increase in Motor and Commercial, which were impacted by Ogden in 2016. Motor recouped 49 million of this Ogden cost in the first half of 2017. The contribution from the non-Motor businesses was 247 million, that's 40% profit in 2017, showing the benefits of our diversified strategy. Commercial performed well and again contributed strongly to the Group. Rescue's been a solid performer with strong potential we can realize.

Let's look in a bit more detail at each of the segments, starting with Motor. Motor pricing was very strong in 2017, albeit stronger in the first half than the second half. Our prices, which exclude IPT, were up 9.5% over the year, ahead of the ABI figures. As we said at the half year, the reduction in risk mix reflects the way we deploy the Ogden price change, as we put through higher increases for younger drivers where the exposure is greater. Strong new business sales and higher retention supported an overall increase in premiums of 8.5% and we grew policy count by 3.8%. Motor profit was up 215 million to 364 million and much of this movement is explained by the change in the Ogden rate, which reduced Motor profit by around 150 million in 2016. The underwriting result also reflects a material improvement in the current year loss ratio, as a result of the strong trading.

We benefited from two tailwinds in terms of current year performance. First, there was a one-off benefit from having fixed our reinsurance costs ahead of the Ogden rate change. Secondly, we had better claims experience than we expected. These two tailwinds, combined with the strong pricing enabled us to improve our margins and this is reflected in a 4.4 points improvement in the current year loss ratio. We think these tailwinds, which will have benefited a number of insurers may also explain why pricing wasn't so strong in the second half of the year. At this point, we are viewing the better than expected claims data in 2017 as one-off. We have not changed our view of long-term claims inflation being 3% to 5% per annum.

Finally, at the end of December, we renewed our excess loss reinsurance at a somewhat increased cost, reflecting a change in the Ogden discount rate. We renewed all layers but retained 10% of the first risk layer. We were pleased with the overall outcome, which looks better than some of the industry commentary we've read.

Next to Home, now at the half year we highlighted a number of actions we've taken to mitigate escape of water inflation and we pleased that our actions have helped return this to more normal levels. We believe we are one of the first to respond to escape of water, we increased our own brand prices in 2017, particularly on new business in the first half. This contributed to an overall price increase of 2.6% across own brands. The shift towards price comparison websites continued in 2017 and as we've written more volume to this typically lower premium channel this led to an overall reduction in own brand average premium to 1.4%. When you take into account our pricing actions, IPT increases and last year's premium disclosure, we're very pleased that in a market with more customers shopping around, we are able to grow own brand policy count and premiums.

Moving to operating profit, Home profit was down 38 million to 129 million, due to lower prior year from the December 2015 storms. So we're up against a tough comparator. The escape of water inflation, also had an impact in the year. However, the operating profit overall was still above our normalized level as a result of another benign weather year with only 13 million weather losses versus our budgeted level of 65 million.

Now to the other two businesses, Commercial delivered a very strong result, GBP74 million of operating profit, which is the highest since the Group was listed. Excluding the impact of Ogden in 2016 profit was up 11% and Commercial combined operating ratio was 93.4%, which is similar to 2016 before the Ogden change. Commercial current year loss-ratio was up a bit in 2017. We interpreted the claims data cautiously at the year-end and the reserving therefore looks conservative. And weather was also benign in 2017. Finally, Rescue and other personal lines profit was broadly flat with a combined profit of GBP44 million. Within that Rescue achieved a slightly better result, offset by a reduction in other personal lines.

Moving on to investment, overall investment return rose a little to 175.4 million in 2017 and that's due to very strong gains both on property and on credit. You can see that the low UK interest rate environment continued to impact the Group's net investment income, down 10 million to 140.1 million after hedging. As a reminder, our investment's objective is to match the duration of our UK liabilities and protect Group capital. We diversified credit exposure away from the UK and then hedged to bring the currency and interest rate elements back to Sterling floating rate.

So while high US interest rates on our US portfolio helped topline investment income, currently low UK rates are reflected in the higher hedging number, therefore lower net investment income. The result of all this is a net income yield on a Sterling floating rate basis of 2.1% in 2017. And for 2018, we expect the trend to continue with a net investment yield after hedging back the Sterling floating rate to be again around 2.1%. The gains in the performance of our property portfolio has been very strong since the commencement of that portfolio in 2012. Given the current levels of the UK property market, we don't expect significant gains on property in 2018. Overall therefore we anticipate a total investment return in the region of GBP150 million in 2018.

Now looking at how we get from headline ongoing operating profit to profit after tax on slide 17, the Run-off segment continued to benefit from positive prior year releases. This is partially offset by 12 million of restructuring and other one-off costs. So combined these two items contributed 32 million to the overall results. Moving down to finance costs, these included a one-off charge of 66.1 million, which relates to the buy-back of Tier 2 debt following the restricted Tier 1 issue. And that brings us down to a profit after tax of GBP434 million, 155 million higher than the prior year.

Now looking ahead we are changing our guidance on the reporting of run-off and restructuring. We previously guided to run off-and restructuring, broadly offsetting one another over the four year period 2015-2018. As at the end of 2017, the net result of these two lines was actually a profit of 43 million. We decided to stop reporting these separately and to report a single -- simple single operating profit line. We will of course highlight any material future one-offs and the simplification has no impact on our targets. With regards to finance costs, these were reduced to approximately half the previous annual charge of around 40 million, with the restricted Tier 1 coupon of approximately GBP15 million being reported to movement in equity.

Now in a moment I'll hand over to Penny who is going to take you through our capital position and also talk about the outlook for DLG. I believe our prospects are excellent and that DLG is well placed to continue to produce great returns for shareholders. Here's a summary of how things have turned out in the 5 years since we went public. The first couple of years our priority was to put the fundamentals right, pricing, claims and cost efficiency. Over that period, we held our Direct own brands policy count flat. But we came out of that period in 2015, that's the year we sold International, and have been growing Direct own brand customer numbers steadily since then. These have grown around 5% in each of the last two years.

Throughout our time as a listed company, we stayed focused on a combined operating ratio target, sharpening that target frequently, and more recently extending it to the medium-term. And we've managed capital effectively in order to translate that combined operating ratio and profit to strong return on tangible equity. All this has delivered great shareholder returns as illustrated by the chart at the bottom right-hand corner. I'm confident DLG is well positioned to bring you great returns in the future as it has done in the past.

Thank you for your support for and both [ph] for me over the last 5 years, and in the next hour [ph]. And now I am delighted to pass the baton on to Penny.

Penny James {BIO 15157212 <GO>}

Thanks, John. Firstly, I'd like to thank John for his extraordinary patience, putting up with all my questions and curiosity over the past few months. Many of you already know me, so I won't go through my background here, but if we haven't already met please catch me afterwards and make the acquaintance. Now I had the luxury of a lengthy handover period. Since November I've spent most of my time visiting different parts of the business. I've been everywhere from the customer-facing areas to digital, from NIG to marketing, from partnership to accident repair centers. And in this time I've observed many things about DLG that I think give it a distinct advantage. But there are two that I want to highlight here.

First and most important is customer centricity. Whether in a call center, talking to customers or talking with a car mechanic, or discussing strategy with the Ex-Co [ph] one thing is clear and consistent in this organization. And that's the focus on the customer. You can feel it in the Direct Line propositions which are quite distinct, you can feel it in the unscripted customer call and you can feel it in the sensitivity with which our call handlers deal with our customers. Customer centricity is consciously part of the culture here at DLG. And I believe it's what delivered the Direct own brand's growth that John's been talking about.

Second is the depth of the talent. Several of my new colleagues have been here for some years and have been the driving force behind the success you've seen on the slide before this. But others are much newer to the organization and like myself hopefully bring fresh-thinking and are leading areas such as data, procurement, technology, Green Flag and so on.

But there's also plenty of opportunity for us to improve. I believe we can further leverage these strengths and build our capabilities across all of our channels. So I am enthusiastic about the direction we're going, and as always further to go on cost and efficiency. Paul will talk in detail later about our view of where we stand on what we're doing. But in summary, I believe there are some great differentiating strengths, an energized team and lots to do, so I'm really excited about what lies ahead.

Now turning back to the numbers, let's take a look at the balance sheet that I've inherited. Here we have our first full year of operating under the solvency II partial internal model and I'm very pleased to be presenting strong capital generation. It's important to note the figures are still draft and won't be finalized until the regulatory returns go in May.

But looking at the slide moving from left to right, we start the year with a surplus above requirement of 910 million. Despite the growth in the business during the year our capital requirement actually reduced very slightly by about 14 million. There are lots of moving parts, but it's worth noting that whilst we are still growing we're also seeing a reduction in our net reserve. This reflects claims settling on all the years, the new years here being reinsured down to around the GBP1 million level. And recognition of the cautious approach to reserving, the Group has taken evident by history of prior year positive development.

Capital generation from our operating activities was 487 million. Whilst there are some differences in between the bases in Solvency II and IFRS that create variations year-on-year, generation post CapEx should broadly reflect the IFRS profit over time. But currently, we're in a period of higher capital investment. Capital expenditure was 94 million and in line with our previous guidance of 80 million to 100 million per year on average between 2017 and 2019. And that reflects the investment across the business, which Paul will be discussing later.

Our successful debt refinancing at the end of 2017 slightly strengthened the overall position. And finally, we've announced dividend totaling 486 million for the year, which I'll now turn to [ph]. The strong financial performance and capital position has enabled the Group to rebase the regular dividend and recommend a special. The Board's recommended a final regular dividend of GBP0.136, an increase of GBP0.40 [ph] on last year and consistent with the guidance given at half year. In addition, the Board declared a special dividend of GPB0.15.

Turning to solvency, at the half year, the Group announced in normal circumstances, the Board expects to operate at a ratio of around -- from around the middle of the risk appetite range of a 140% to 180%. After the final and special dividends are taken into account the Group's estimated solvency ratio was actually 162%. This guidance as to the level of solvency in normal conditions remain unchanged. I would remind people that the nature of capital modeling includes some inherent volatility and therefore people should anticipate a small variation year-on-year, even in normal circumstances.

Before I had over to Paul, I'd like to close on outlook and targets. I inherit a strong and well-managed balance sheet, a history of prudent reserving and the current underwriting heavily de-risked through reinsurance. As you've heard, this is a business which has shown real momentum, disciplined underwriting and an ongoing focus on efficiency. This together with the investment across a range of initiatives gives me confidence to reiterate the medium-term target.

From a cost perspective, it's important the Group maintains its focus on progressive improvements in efficiency. So we plan to continue to reduce our expense ratio and our commission ratio. Assuming current claims trends continue, we aim to deliver 93% to 95% combined ratio through the medium-term. And as our investments in business yield benefits we expect to see a further re-balancing of our profitability between prior year towards current year. This is a key focus area for me. Having re-based the regular dividend by 40% in 2017, we now seek to grow the dividend in line with the business.

And finally, on capital, we expect to be around the middle of a 140% to 180% risk appetite range in normal circumstances. Of course, we maintain an ambition in the long-term to achieve at least a 15% return on tangible equity. It's good to see that in striving to achieve these objectives, the team remains absolutely committed to invest in the future of this business. So we are well placed strategically and operationally for the changing environment ahead.

And with that I'll hand over to Paul to give you a real flavor of what we're actually doing.

Paul Geddes {BIO 2474781 <GO>}

Thank you. Penny and John. Penny, it's great to have you here. John, I'll come back to you later. So as we've been through, in 2017, we've delivered some great numbers. And these numbers haven't been achieved by accident. They are result of concerted management action on our priorities, which as we set out six months ago are, to maintain revenue growth; to reduce our expense and commission ratios; and to deliver underwriting and pricing excellence to fuel growth and good loss ratios. As you can see we've delivered across all three.

Our own brands have driven our revenues higher, we've delivered good improvements at both our commission and underlying expense ratios, and we've delivered that growth at good attritional loss ratios, all of which combined to grow our current year profit by GBP87 million albeit, as John said, including some one-offs. To keep this momentum, we continue to deliver initiatives to improve the business. And to explain the next wave of initiatives we are investing in, let's look at our channel strategies.

So here's a chart which we showed last year, when I talked about returning our Direct business to growth, having spent the previous phase optimizing our business to PCWs.

This time we've also included partnerships. We believe that our strength at all three channels is a major advantage for us at DLG. We start from a strong position with leading brands in specific channels supported by Group-wide excellence, at customer service, great digital front-ends and claims excellence.

Today, I'm going to set out our plan to push forward on all three channels at once. On Direct, our most advantage channel, we want to keep up the momentum, particularly pushing hard into SME and Rescue. We also think we can do that in a way that's increasingly efficient for our customers and ourselves. On PCWs, which is where about three-quarters of Motor policies and about two-thirds of Home policies are bought, our ambition is to have the best capabilities, and when we have them to grow in this channel.

In partnerships which took a bit of a back seat to our own brand business during the early part of the plan, where behind the scenes, we've been investing in our digital capability such that today not only is our major Home partnership returned to growth, but we're now in a position where selectively we will start to target and to win new partnerships. Sitting behind these initiatives with all three channels is a unified Group-wide data and technology plan, which I'll update you on in a moment.

Let's start by going deeper into all of these channels, starting with Direct. And as you know, we're really excited about our Direct business. We've re-established growth and still see lots of opportunity, and not just in our core Motor and Home business. We're going to be instrumental in driving the micro SME market to go Direct and we want to shake up the Direct risky market and get a much bigger share of the value. Our objectives here are pretty simple. First is for us to continue to fuel our brand and customer advantages to maintain that growth. The second is, there are many ways we can improve our efficiency of how we deal with customers.

So let's talk through some of the initiatives we got here. First, we're just launching two brand new unique Direct Line propositions on Home and Motor, and our pre-testing show they maybe our best yet. And you may already have seen our new fast response launch on Home on the TV over the weekend. Direct Line customers are going to get these new propositions on top of the many unique propositions we've already given them. And as you know we have a fantastic new SME system which we rolled out already to Bed & Breakfast owners and for Hair and Beauty traders, and we got to push forward significantly on that roll out to get to 75% of our target market by the end of this year. Green Flag, as you know, we put back into a single business unit under new management and they're developing an exciting new plan which we'll share with you soon.

Turning to efficiency, we're going to enable customers to do more for themselves by self-service and we see an opportunity in automated processes and increasingly straight through processing. These things, we believe customers will actually prefer, or they won't notice, but they're going to significantly improve our efficiency in running the business.

Let's now move on to PCWs where as you know, we have the best brand in Churchill and a great pricing [ph] brand in Privilege. We've done a lot of work to be good on PCWs, we're competent in pricing and fraud which matter a lot in this area. And that's enabled us to be competitive and to have a steady share at adequate margins. But our ambitions are much greater. We're investing to have class-leading capabilities, and when we have these we want to grow this channel. So what do we need to do to achieve that. Well first of all, as part of our overall IT systems, we're investing in the latest generation pricing engine and with it, a series of application forward initiatives. We are also in parallel developing an alternative pricing model using new math and machine learning to come up with a model which is equally predictive, but importantly, non-correlated with our existing pricing models. We're also steadily pushing out our quote footprint and our high ambitions to keep Churchill in great space at the top of the preference for PCW brands.

Finally, partnerships, which we're going to split into three. First, our Home partnerships, we have some stability here, having secured the RBS and NatWest partnership. And our objective is to grow that partnership and selectively to acquire new ones. The work we've been doing behind the scenes to knit our systems together with that, to enhance the journey for both customers and branch staff is working very well. We significantly increased new business sales and thereby stabilized the book. So here we want to use this platform to add new partners.

For Rescue and travel our ambition is a bit different. These are businesses finely priced, which we like to get because they can add useful scale, but the economics also need to work for us. We have a bit more of a mixed picture here, we recently extended our travel partnership with Nationwide and won the RBS Rescue partnership. Our objective here is to create a platform for growth and our next initiative is the development of a brand new travel system.

Now for Motor, where the role of partnerships is strategic and our objective is to be the partner of choice for car manufacturers. Why? Well the current transformation of the motor industry provides both risks and opportunities to insurers. We want to partner with motor manufacturers to be in that value chain, working with them to create exciting new propositions for customers. That's why we have introduced a relationship with Tesla, and our partnership with Peugeot, Citroen. And today I'm absolutely delighted to announce that we've signed a letter of intent with Volkswagen to be their insurance partner in the UK for their brands, Audi, SEAT, Skoda and Volkswagen and Volkswagen Commercial for at least five years.

I hope you'll agree overall, a really exciting and ambitious set of initiatives across our three main channels, but clearly to deliver these requires us to have the technology to support them. So let's take a look at where we are in technology, where we've been making real progress, our systems are resilient and stable, and we have excellent digital and mobile front-ends helping us to win in the marketplace today. Our mobile sales for Direct Line have doubled in the past year, supported by class leading load times. And we continue to improve our web purchase journey with NPS scores up 3.3 percentage points in last year alone. We've also done a lot on claims where we are very mature in our running of GuideWire's Claim Center and we also have technology to allow customers to use mobile in the claims process, and to be able to fight claims fraud. And this has helped us to significantly increase our claims NPS score up a further 2 points in the year and detect significantly more fraud than the market average.

But we have more to do. We need to complete rolling out our self-service functionality, and our legacy systems are both expensive to run, and lack agility and flexibility. So here our objectives are pretty clear. We want to support the channel strategies that I've just outlined. First, by seeking the leading position on pricing and fraud capabilities. Second, by giving us agility and flexibility on products and propositions. Third, by progressing our story on self-service, automation and straight-through processing. And finally, by enabling us to add partners with agility and speed and giving them the functionalities they want.

At the same time, we have another big objective, we also see IT as a major lever in delivering our expense ratio reduction. So our initiatives here are quite clear. We want to complete the build of the latest generation system to give us that functionality which I'll cover in a moment. And then, we want to run these systems in a much more efficient way. We've already significantly increased our procurement capability, achieving better deals with fewer partners, we have a preference to rent rather than buy infrastructure and increasing our cloud usage, and we have a plan to reduce and ultimately decommission our expensive mainframe.

So let me next go on to focus on the completion of those latest generation systems, which unlock both the functionality and the cost savings. A reminder of our approach here, we have a preference to buy rather than to build and to select products proven in their respective markets, avoiding a one size fits all model. This approach also enables us to keep our systems up to-date, as we benefit from ongoing releases and upgrades from our partner suppliers.

Finally, we will test rigorously and take a phased roll-out approach to manage risks. On our core personal lines business, the functionality, as I said is good at the front end, and good on the claims side with Guidewire's ClaimCenter. What we're working on now is completing the full implementation of the GuideWire Insurance Suite whilst implementing the Towers Watson, Radar Live pricing and underwriting engine, along with supporting systems and infrastructure, which we will connect to a comprehensive sets of external data. This will help us deliver against all four of the objectives I set-out in the previous charts.

Here as you know, we had to rework the data architecture, but the new data architecture is agreed, we've taken the impairments and we are partnering with the systems integrator to complete this deployment. We're building and testing our initial major release this year to start rolling out next year. Elsewhere, we talked about our SME system, which is going to be rolling out to 75% target rate this year and in other personal lines, we're building a new travel system, which we will also roll-out this year. So lot of progress in our underlying systems. We've done what we need to do to get us back on track and we're very excited by the opportunities they will bring. The systems we are implementing will enable us to move forward on all the initiatives in our channels and they underpin our medium-term target.

So in summary, 2017 was a great year. We successfully delivered against our priorities, helping us to deliver strong and highly cash generative earnings. The strong cash generation has helped us both invest in the long-term of the business and at the same time deliver to shareholders today with total dividends of GBP0.354 in 2017.

With that, let me go to questions.

Questions And Answers

A - Paul Geddes {BIO 2474781 <GO>}

Right . So we go further this way, so Ravi?

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. It's Ravi Tanna, Goldman Sachs. I have three questions please. And the first one was just on your investment income guidance. I know you've got a medium-term profit growth target, but obviously with today's guidance on the kind of stable underwriting and then fading investment income at least in 2018, I was just wondering, if you could talk to us how you're likely to handle that and whether there's scope for re-risking on the investment portfolio at all.

And the second one is on the SCR, and could you give us a sense as to whether this is likely to be an ongoing tailwind that will help solvency development. And if so, by how much each year? And then the third one was just on your comments around quote footprint. Just curious to know exactly what the parameters are there and to what extent you are looking to increase your volumes and in what pockets of the markets? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, thanks, Ravi. Yes, so we've said -- profit guidance, we of course haven't given, we don't give profit growth guidance, we give dividend growth guidance for our regular dividends, which we said is 2% to 3% [ph] which we sort of aligned that to the growth of the business rather than any individual line. Obviously we want our profit to grow, every company does and today we got the prevalence [ph] of that, are fairly transparent.

So we said medium-term core target within the range of 93-95, we so far we've been delivering that and obviously we expect that to continue and we've talked about growth in the business, and all the things we're doing to get that growth. So you got some of the parts, the P&L going in the right direction there. Along with installments and other which tends to get to track what's happening with the volume generally. Then on the investment side, yes, the investment income, we think is going to be down year-on-year '17 to '18. Once it got to that point, I think, there's the scope for it to grow a little bit with volume, obviously depends then on how much we distribute as dividend -- whether AUM actually grow or not, they haven't always grown. And then I think we'll be looking more to interest rates. I mean in a ways more penny question that you got to manage dividend in the future than a me [ph] question, but I think based on where I've been talking with my colleagues on the investment side the upside on investment is probably more on UK interest rates than any other individual driver.

We're taking roughly the amount of risk we want to take. There probably is some scope to take a bit more investment risk. We've not yet found a new investment class that excites us in that sense. And so there could be some tactical moves, I don't expect anything major, but I think, you want your powder dry. And then but interest -- UK interest rates, we could actually take a bit more risk on UK interest rates, because we are quite short, we got lot of cash. And I don't think we would see now as the moment to do it. That's a potential for improvement in interest rates, and for us to take a bit more of that risk as the yield curve to be -- if it does improve in the UK, that's an upside. Do you want to add anything?

A - Penny James {BIO 15157212 <GO>}

No, I think, that's quite (inaudible), I have been looking to UK interest rate is the main risk here. Shall I take SCR, SCR and early days to give a definitive number, but directionally, if you look at the way the reinsurance program changed in 2014, then I think you should expect that those results will continue to tick-down over time and there are lots and lots of moving parts in an SCR calculation, as it's volatile to a number of things. But those other things being equal you'd expect to see I think some tick-down over time again in that SCR which gives us some options around how we deploy that for growth and so on and so forth.

A - John Reizenstein {BIO 6786139 <GO>}

Our quote footprint is kind of two to three buckets here. So first of all, our quotes for things which we just don't do today, like (inaudible) we don't do homes with pre-existing subsidence [ph]. So here you need some generally new expertise to learn because we haven't written those before. We don't have much kind of experience. So that's kind of -- there is some initiatives to stop tracking some of those. Then there is -- kind of within existing parameters, things which we don't quote for, because we don't have the historic performance and again we need to kind of continue to grow our expertise there.

And so those are both pushing out the quote footprint. It's not going to be a sudden single bang, which takes us to 100% quotability. I think the most important one though, that we've said, here under alternative pricing, is not the quotes we return today at all. It's increasing our competitive quote footprint. So today, as you know, we have a single pricing model, which means that -- either all our brands are pretty compatible, or none of our brands are competitive.

So we've got a bunch of very, very clever people, using the e-math, machine learning to go off and use our fantastic claims data to model in new ways. And so far the experience is pretty encouraging that they can model at least as good loss ratio but importantly non-correlating with our business. So we increased number of customers we can choose and we are working on how to deploy it. Now obviously we need to actually write some business to gets some claims, check that, that claims experience comes through in reality, but that's probably the most significant in terms of the volume from quote footprint, versus the pushing up on the overall envelope, the competitive quote footprint is important.

A - Paul Geddes {BIO 2474781 <GO>}

All right. Good, right, thank you. Yeah?

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you. Arjan van Veen, UBS. Thanks for the additional disclosure on the systems changes. Just curious to see -- you said you are going to roll them out. Could you talk maybe a bit about legacy systems and how quickly they kind of get turned off after the rollout? And a question for Penny, you're on the Board of another peer that has much lower cost ratio. So could you maybe indicate some areas where you think Direct Line is little bit on the fat on the expense side?

A - Paul Geddes {BIO 2474781 <GO>}

Very good. So yeah, I mean systems, it is going to be multiple years to fully be able the switch off all legacy systems and mainframes. But that's not to say that as we reduce our usage of mainframes we won't be able to save some money. So it's not -- clearly there is a drop when you get rid of the mainframe, but we'll be reducing our costs in the meantime and that's just one of the parts of us running our systems more effectively. As I said, we've got fantastic new procurement capability. We're really leveraging our scale, we probably inherited a little bit of a bank like approach to cost management on IT, and we now have a very different approach which is really leveraging our scale, consolidating in fewer partners, let's say renting versus buying infrastructure. So we've got -- it's not at the end of the cost savings comes from IT, it's actually quite progressive, Steve's got a great plan on that. Penny, fat?

A - Penny James {BIO 15157212 <GO>}

Fat, look, as I think I don't want to comment on Admiral in particular. But what I said -- acknowledge there's a different model here. So there's some cost that occurred in this business that are done for a good reason, such as Direct Line of marketing costs are different et cetera, et cetera. So I don't think we should necessarily compare the two head-on. We need to be mindful of what that cost is generating. There are some areas where the costs are higher than you would choose. I think property cost we have some legacy issues there, that they are probably not going away in a hurry. IT is clearly an overhead. I think we've got the right actions in place to address those and bring those down, but it will take time to actually get the decommissioning adjusted. And then there are some broader areas where I think you can generally just continue to tighten. So I think Paul mentioned procurement which is a great example where I feel as though we've moved from not being top of the list to having quite a sophisticated approach to it in the last year. So I think that one is now working. So I don't think you should look at every cost line. There's some business model differences, still a little way to go, I think.

A - Paul Geddes {BIO 2474781 <GO>}

I think, listen, I acknowledge, I think it's fantastic to have Penny around the Ex-Co [ph] table. She does bring up -- bring a challenge on that area and it's not one way we need to, but it's -- as we said having fresh blood and fresh energy on that I think it's really important and as you know we've got target to continue to use our expense ratio, which we were behind. Good, the next, James and Alan?

Q - James Shuck {BIO 3680082 <GO>}

Thank you, James Shuck from Citi. I had three questions please. Firstly on the LTIP. So the LTIPs like they kind of fully vest around 17.5 to 20.5 return on tangible. You're currently making 21.7. There was a little bit of headwind or a tailwind I should say with low weather that might take off a little bit going forward. But I just love to see where the incentive is to actually drive the ROE higher and why that's the appropriate level for the LTIPs, that's the first question.

Secondly, just a numbers question really on the reserving. So if I look at the mix between the IBNR and case reserves, there's a sharp drop in the IBNR in 2017. I'd like to know what's explaining that, I assume it's partly Ogden but I would expect case reserves have fallen as well? And then thirdly, around the GDPR. Just interested around this right to be forgotten. And what that might mean for things like no claims bonuses and the like, particularly in Motor? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

Good. So LTIPs you would have noticed our own case, have stretched our ROTE [ph] targets by 250 basis points. So a new application it [ph] went further.

A - John Reizenstein {BIO 6786139 <GO>}

Well, part of the reason why that happened is because the gearing level's gone up a little bit.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, so about half of the increase is the debt, which is worth about 130 basis points and the rest is just further stretching. (inaudible) has a job to do. As you rightly point out the stretched targets to keep the carrot sufficiently the right distance from the horse to make it motivating. And I think so -- that I think your observation explains why they've put 250 basis points on the target.

Q - James Shuck {BIO 3680082 <GO>}

Maybe kind of help me understand just a bit, sort of why there is a stretch, because if I look at the ROTE in recent years, you are consistently making that kind of number. So it's sort of -- you don't have to do anything and then you get paid out fully on the LTIPs.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I think, listen I think delivering 20.5% ROTE I think it is a very good performance, and I think to increase targets in one go about 250 basis points, I think is quite a change. And I think they've their done job to make the target more stretching. Whilst I think if I were to come in here and say okay, we're putting some numbers in the mid '20s. I think that would have been -- send all sorts of inappropriate signals about the business and prospects and all sorts of other things. But I think they were mindful of the need to make sure the targets were more consistent with the consensus at the top end. I think the 250 basis point increase is quite a move. You can always argue, I'm sure you can give feedback that you want more, but management thinks it's quite a big increase. IBNR?

A - John Reizenstein {BIO 6786139 <GO>}

Yeah, well, we haven't changed anything how we reserve or in the sense we have. You're right Ogden is the main reason why that's a change, what was in IBNR has moved into outstanding claims reserves, once we did the case review, which was earlier in 2017. The other thing you might expect the ratio to -- of IBNR to outstanding claims to reduce as the old years, which has a very high deductible on insurance. So we're not surprised that they have some reduction in that ratio, but there's nothing, there is no underlying change in policy or reserving that you are arguing.

A - Paul Geddes {BIO 2474781 <GO>}

Mike on the GDPR. Just wait for the mic.

A - Michael Holliday-Williams

Okay, thanks. It is complicated and we will abide by the legislation. There's always been a right to be forgotten. So I think we think it's -- when you look at NCD there is a legitimate use for NCD as well. So we will be using that as part of that. And at the end of day reduce (inaudible) by collecting consent for the right things and that's what we'll be focused on, really. We don't think it's -- this is a major issue really, if that's what you were hinting at.

A - Paul Geddes {BIO 2474781 <GO>}

That make sense. No, stuff like convictions, I think we've got a more sensible outcome than some people initially were concerned about. Do you want to mention convictions?

A - Michael Holliday-Williams

Yeah, I think the right to convictions when your ratings is one of our biggest concerns in the insurance market. And again that seems to have been accepted that we can use that and that would have been a concern because it's directly related to risk and but also as insurance industry we got to take off that conviction at the right moment. So that's what we will be making sure that we do as well.

Q - James Shuck {BIO 3680082 <GO>}

My concern would be that people are more inclined to claim things like scratches and things like that, because then they can just have a right to be forgotten and then they can go across to the new provider.

A - Michael Holliday-Williams

No, that is not -- we share NCDs on Q [ph] database and trying to make it easier to share it around the industry and so we will be collecting consents to do that.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

Alan?

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin from Barclays. Couple of questions, first of all, why don't you give us some more color on your comments on claims inflation and as you had a favorable year this year, but you're not -- you're giving the guidance for 3% to 5% going forward. Would you give us more color what's going on? And just second on the reinsurance, taking 10% of the first and then you're implying there not as a much more of a working layer, would you consider taking more of that -- retaining more of that risk or would you consider that in the future? Thanks.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean, we've always said that having a balance sheet gives us the optionality to be selective on the lower layers and to get -- use that to get a good price and we think we did use that. So 90% is pretty perfect for us in terms of the level of placement of that. We negotiated well and we think we got a good deal. Time will tell, you'll see our actual cost at the half year, but we think it's very commercially sensitive to share that -- to share that now. I think on Motor claims, we are treating it as a business as usual. We will resume in terms of 3% to 5% inflation. There is some recent things that will -- recent things that might not. So more benign reasons are the Jackson and the MedCo initiatives may have had some impact, a positive impact on small bodily injury, those were few years ago. So we may be seeing some positives from that. Driver miles, inflation's kind of pretty modest as a result of -- we think the fuel price increase is a result of Sterling's weakness.

Car tech maybe helping. We are incentivizing people to have cars that automatically brake and then also weather is another reason there might be a one off because we had some good weather this year. So there is a mixture of stuff you could say are they cyclical or are they structural. Obviously, going the other direction cars are just getting much more expensive to repair and that trend continues. So I think for those of us that went to our next repair centers, you see a total loss of a car that's damaged because of all the sensors and airbags and stuffs that goes into it. So we think it's a safe working assumption for it to be 3 to 5 and we will continue to track it. Obviously, we had better experience of that in 2017, which is why we booked 4.5% better attritional loss ratio in the year. And of course, we had the benefit of the reinsurance protection as well. Tom?

Q - Unidentified Participant

Good morning. Tom Ivani [ph] from Exane BNP Paribas. Just one follow-up on the LTIP question. The return on tangible equity target mostly went up, but not in your targets for the market. We attempted to increase them in line. One is just in terms of the competitive environment, you are growing ahead of market, a number of your competitors are talking about very ambitious growth plans. Are you seeing any signs in particularly Motor, of competition coming in, in terms of pricing and margins?

And then thirdly on Rescue, one of your big competitor's been flagging challenges, I guess in that market, what are your reflections on that? Is it actually a positive view or is it actually something that makes you think again about your plans there? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

So first of all, let me say what our 15 is, what it isn't is a cap on our ROTE. We are incentivized, maybe not to James' full taste, but we're incentivized now to the keep pushing that up another 250 basis points. And it doesn't stop us delivering the returns. What it is, it's a thing which we use in making business decisions everyday about initiatives and growth. And I think we should be saying of the initiatives to deliver 15 ROTE that would help us grow, putting in the 20 target would make us a smaller business, albeit a business profitable. So I think in that role, I think you can understand the 15 target, and of course they will get a bit easier with the post-debt restructuring.

In terms of competitive markets, I mean, I think we're still calling most of the market rational to the extent of -- follow-up with Mike on the detail. But basically we're saying that the market gave us some of the gains and you can kind of see it pretty much when the government announced the intention to revise Ogden in September. That changed people's views of what that cost would be.

And then it won't probably have very good claims experience. So I don't think the market is irrational, albeit prices are coming down and I think as we've always said prices should come down in a competitive market when claims cost come down and I think that's good for all stakeholders. I think the Home market is actually quite competitive. We're again, not calling irrational, there is more supply than demand in homes, it's an attractive looking market. So whilst we are positively seeing some pricing inflation, we don't think that's quite sufficient to cover claims inflation. So that market we're saying is rational, but very competitive and that you should season, I think, the view of how we see that particular market developing going forward, we're not necessarily going to see return to sort of previous years. You'll probably start to see the '17 performance as kind of a new level to work from.

Rescue, well, I was going to say, I think we quite like the Rescue market and we're probably on the insurgent side, as we said, we're doing pretty competitive advertising which I am sure if you haven't seen you should, which is naming competitors, and I think we quite like where that market is developing for us. Yes, the final two. Grieg, how are you?

Q - Grieg Paterson

(Technical difficulty) So it's Grieg, KBW. Just three quick questions. One is escape of water. You've been a bit cryptic on the timing of when these remedial actions will start to kick in on their own right, wonder if you can talk about that. Second point is, you mentioned the Commercial attritional loss ratio ticked up and you spoke about claims data and then you want to be conservative. Are we seeing some negative trends there? I mean that surprised me. You want to talk about those trends you are seeing there? And then also, I see that the Commercial liability lines prior year development was quite high. I was wondering to what extent that is sustainable or not or if it's a one-off?

A - Paul Geddes {BIO 2474781 <GO>}

Good. Mike, on the escape of water?

A - Michael Holliday-Williams

I mean clearly we talked about escape of water in the half year and we kind of indicated that we think that the inflation is -- we've got a grip of the claims inflation there. Just to remind that it wasn't just about putting prices up to cover escape of water, it's very much underwriting and across the claims supply chain where we've implemented actions, other than to say they have stabilized now. Whilst we won't recover all that inflation of the past, we think there is stability and then -- and we called out, it feeds into our view that long-term claims inflation is still at 3% to 5% and we've got a good grip of that situation. In Home as well, yeah, absolutely.

A - Paul Geddes {BIO 2474781 <GO>}

Just to make it easy for you, Grieg. On Commercial, on the reserving at the year-end, now we just we don't think -- I don't think there are trends and my Commercial colleagues agree, we haven't seen any adverse trends in the claims data. But there were -- there are some blips. And we've decided to treat those conservatively. We will tell you if they develop any trends, but we don't see that yet, But we are not calling that. Commercial, general liability has been very strong performer for many years and it's a break -- I think it's quite long tail and we've always had John -- John is nodding, very good run-off from that portfolio, and I think we all expect that to continue.

Good. Yes, so then we'll go to the other side of the room.

Q - David Bracewell {BIO 16394801 <GO>}

Great, David Bracewell here from Redburn. Two questions. One on the kind of change in the mix in terms of moving to your own brand policies. My expectation is that it has a higher margin than maybe the partnership business, and therefore I would have expected or hoped to see some kind of improvement to the guidance on the combined ratio there as you kind of continue that shift to own brand, so perhaps tell me why you haven't changed the guidance there? And then a second question a quick one, I think on Motor pricing, given the reinsurance yields you've had and the change in price, should we expect you to be able to increase prices in 2018 to offset that? Or did you kind of get that in 2017 in terms of price rises?

A - Paul Geddes {BIO 2474781 <GO>}

Yeah. So we are pricing with a view of what the reinsurance would be, and so we're slightly to the right side of that in terms of what we've seen. So we've already reported on that. And about the mix, John.

A - John Reizenstein {BIO 6786139 <GO>}

Yeah, I mean you're absolutely right, we're saying that we're going to see that move. And we're seeing it already, and because -- partly because the brands are outgrowing partners. Even when we get partners back into (inaudible) growth, own brands is likely to outgrow them. Own brands have -- obviously they are on the same commission cost. They do have distribution cost, that's different. They can have a slightly worse loss ratio, particularly on Home partners have a very good loss ratio. There is a few moving parts. Bottom line is it's all kind of built into our plan. So our plan, which of course shows 93 to

95 with the expense ratio and commission ratio coming down, it was built on this very trend you are looking to see. So I can't say it's going to make it better than we've said, but it will underpin what we have said. Does that makes sense?

A - Paul Geddes {BIO 2474781 <GO>}

Great. We move to this side of the room.

Q - Andreas Van Embden {BIO 1795530 <GO>}

Andreas Van Embden, Peel Hunt. Two questions please. First of all on moving to Radar Live, and your pricing model in Motor. What were you missing up to now in your pricing agility? And where will this take you statistically to Intraday pricing, for example, across all your channels? And what you think -- in which channel, do you think it's going to be most useful? And secondly on Rescue, as you grow that business, could you comment on whether you see any synergies between your insurance business, particularly the Motor book and Rescue as you scale up? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean listen, we talked to you about Green Flag own brand, but we also have very important business in Linked [ph] and Linked is a big part of our plans as well. And all our initiatives will support that channel and package accounts which is the third channel. So yes, in terms of cross-selling that's kind of a feature of our plans. If you're asking about whether we should have a Green Flag insurance, I think we've got plenty of insurance brands in terms of Motor insurance. Was that -- sorry.

Q - Andreas Van Embden {BIO 1795530 <GO>}

How much of Motor policies -- Direct Line Motor policies or others do you serve through your partnerships in Rescue or Green Flag -- in percentage of policies. Are you selling --?

A - John Reizenstein {BIO 6786139 <GO>}

Well, we don't -- the partnerships are separate. So the Rescue partnership is separate from the insurance partnerships.

A - Paul Geddes {BIO 2474781 <GO>}

Generally, if you split the book up, there is a loss of volume of policies that we do, as we've said for very low margin. But if give us Rescue scale, which is really important to get more vans there, and more Motor ways and more cities than that. So -- and then we've got kind of the two businesses, which are better margin, which are the standalone and then the linked. And I think we've talked mainly about the standalone business here, saying it has a very good linked business as well, which we have good levels of selling Rescue into our car insurance customers. We are probably quite mature at that and I think most -- more of the opportunity we see is the standalone business. Again, start of standalone plans. And that's the one with the highest margin. That's the piece of Rescue that has the highest margin.

Pricing, we get lots stuff from Radar Live. So we gets lots of more external data, we get more accuracy of modeling, we get faster deployment. Intraday is a functionality, which we -- some stage could choose to deploy. We need to work out the merits and demerits of it. Intraday, you are not learning much of our claims, you're learning something about how other people are pricing the market. So it gives us the full kit what we switch on -- leave it to us. We see a lot of value in those. The first thing as I mentioned which we're going to benefit from. And application fraud is another big reference, I believe.

A - John Reizenstein {BIO 6786139 <GO>}

Yes, so -- and the other thing it's not much more efficient to run. So at the moment we model separately from deploying, which not only creates some inaccuracy and takes some lag, but also is loss of work. So we're going to remove work from it. So it's really good, pretty excited about that.

A - Paul Geddes {BIO 2474781 <GO>}

Right, yes. This side of the room suddenly quite excited, right.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Waj Rizvi from Deutsche Bank. I have three questions. First one on Home loss ratio. Can you talk a little bit about the dynamics of attritional loss ratio and like -- and from the change in business mix. I seem to understand that there is some offsets in reducing commission ratios and higher attritional loss ratio, so just the dynamics of the two? And then the second one would be on systems. So I think you talked that it will take some time for you to switch off the mainframe. So is it fair to assume that expense ratio or expense benefit would be a bit back-end loaded from this technology? And finally, just a numbers question. So you are changing run-off, you are putting it in operating. The guidance of run-off offsetting restructuring cost. Is that still valid for the next few years? Thank you.

A - Paul Geddes {BIO 2474781 <GO>}

So, you do one and three and I'll take the second.

A - John Reizenstein {BIO 6786139 <GO>}

Yeah, on the last one, we are including it. We -- if there is nothing to report and by implication there shouldn't be too much to report. It's not going to make any difference really, not much difference. We are not expecting very much different. Obviously, there could be changes. So if Ogden, the Ogden rate changes, we're going to benefit in run-off as well as benefit in Motor and Commercial and maybe probably report that separately.

A - Penny James {BIO 15157212 <GO>}

If there is anything significant, we'll report it.

A - John Reizenstein {BIO 6786139 <GO>}

The expectation is it's not going to be dramatic and that's why we --. On the Home loss ratio, and the way maybe to think about it is, if you take the 2017 core, which was just under 90 and you probably need to add for weather to the main normalizing point, you probably need to add 4 to 5 points to that. So it comes to about a normalized core of 94, 95. You got to think about the components that they will take a bit of the difference in the commission ratio, when that happens, but you end up at about 94, 95.

And then looking forward, you got a few moving parts on Home, so you've got nationwide premium reduction, NEP reduction over one year. So there won't be any '19 and there will be half a year basically in '18, and that's a reasonably large part of our NEP. On the other hand, they do take quite a lot of commission. So the commission ratio is going to come down like that quite significantly in Home in 2018. And on the accident loss year, on the attritional loss ratio side, they have low attritional loss ratios relative to the rest of our business. And so there's a little bit of strain because of that and -- but I think overall you're probably going to see -- we think there will be an improvement in core, in Home normalized because of that commission ratio reduction, which is quite significant and that will broadly balance in our view -- broadly balance the reduction in premium. There's a few moving parts, but that should give you some more guidance, if that helps.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean, basically we've given a few clues to quite a lot of moving opportunities that we have in IT costs. So across the basket of all those, where we see opportunities kind of yes, the mainframe kind of usage comes down and then you get a big saving in the end. But there are other moving parts that Steve's got in plan to reduce. I think we've given some flavor of them in terms of procurement and -- Steve or John could reply.

A - Steven Maddock

There is a number of initiatives that -- and levers that we are pulling here. I mean Paul's referenced first thing we do is, we're going to strike better deals. That gets an immediate benefit for us as we in effect implement these new systems and we are in effect re-platforming most of the front end systems in the business, you get a gradual reduction in your mainframe usage over time as you migrate to these new systems. That's I think an ongoing feature. You then get sort of final decommissioning. That gives us another kick in terms of benefit, and of course in parallel to that any system that you are not addressing by re-platforming we are re-engineering to make the underlying net usage reduce, eliminate it or get a better a deal on it. So there's about four levers that we're pulling, and each of those has an impact over the life of our plan.

A - Paul Geddes {BIO 2474781 <GO>}

Yes, right.

Q - Andrew Crean {BIO 16513202 <GO>}

Thanks. Andrew Crean, Autonomous. Three questions, if I can. Firstly on Motor PCW, I think your market share has been broadly flat. And I think with this new pricing machine you are anticipating building market share there. Can you share with us some of your ambition say for this year in terms of policy kind of growth from the pricing? Secondly CapEx, are you still guiding to 80 to 100 for this year? And I think you said it's a bit of a bubble. Will that drop down from '19 onwards? And then finally on whiplash and Ogden, can you say a little bit about what you anticipate the legislative position is on that? And if you don't get anything through parliament on Ogden, what happens?

A - Paul Geddes {BIO 2474781 <GO>}

I'll start with last one. So the government's announced a timetable, introduced legislation to get the kind of two parts of whiplash in by next April. There is quite a lot of work to be done by all parties to get that to happen, there's quite lot of systems work to be done. So -- and of course, they need to get it passed. So -- but our planning assumption is that will happen for next April, but there are some risks to that, I think in terms of legislation and then all the systems work needs to be done to enact it because there is quite lot of technical changes to make that work and Stephen, I was going to say, bore [ph] at the break, but he can tell you at the break with his MIB hat on -- about all of what needs to be done to make that happen.

And whether Ogden hitches along for the ride off the Civil Liabilities Bill or not is a debate. And there are pros and cons to whether it does hitch along for the ride. There is obviously dangers of it attaching, but it's up to the government to get that done. They've set out quite a clear intention to get it done and that is up to them. We are unclear on the legislative vehicle, they are going to use to do it. Obviously what happens, it depends on what if it doesn't happen, it depends on why it doesn't happen, whether it's just a timing thing because of course really what matters is that it does eventually happen because we're talking about claims we will be settling in a few years' time. So it's not month critical to that extent and clearly if it fails for specific reasons, the government goes back on its commitment, that'd be very different to the schedule we timed. And of course really what matters is the reinsurance material, it's reinsurance costs.

So we've got -- the next real thing is next year's renegotiation of the reinsurance contracts. So we've got pretty good protection this year and of course, that reinsurance contract was struck with some expectation of the rate changing, not full. Did I give you enough?

I mean PCW is -- lot of initiatives we talked about are not this year. We'll be -- so the alternative pricing will be -- we are aiming to get some experience this year, but I think this is a medium life of the plan ambition we're setting up here on PCWs. There are lot to it. And I think you should take it as quite a big stake in the ground today that we're saying, there's no reason we see we shouldn't be leading edge at PCWs, and we know what the deltas are and we think that we have the systems work and the initiatives to close that application fraud, pricing we've talked about, and as I said alternative pricing approach.

A - Penny James {BIO 15157212 <GO>}

CapEx, I think we haven't give guidance between -- beyond 2019. Clearly we are still going to be investing in the business beyond that -- I think we are in a bubble at the moment. So we're in the upper end of that range and we will stay at the upper end of that range in the short-term, but I don't think it means that we stop investing in the business in 2019, might peel back a bit then.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, it's Kamran Hossain from RBC. Just one big picture question. So you talked a lot about kind of the changed distribution model, how you're able to access all the three main channels. And when you think about partnerships, one of the big four price comparison websites last week set out its ambitions to partner with banking apps, so straight in by going to that app, they can offer all sorts of services. Do you see any -- I mean, when you think about that change in the market or the potential change of market, is it a threat, is that an opportunity, does it change the way that affinity might work going forward because obviously a lot of big affinity there was -- especially on the Home side are with banks. So any thoughts on big picture question.

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean generally, we've seen this leg of our strategic pyramid, as giving us some strategic optionality, and I think one of the things we want to do is, if we are not a great retailer, we'd certainly like to be the small and efficient manufacturer behind other great retailers. We are -- I think that gives us some strategic optionality, if our retail brands don't win in the market place which we hope they will, working with other peoples. We think all those people will need people like us to have our excellence at all those things which we are really great at. So and I think that's revealed on our approach on Motor, which other people could view as a hostile trend. We're running straight towards that and saying okay, you motor manufacturers have lot of assets, increasing a bunch of assets in terms of how people will purchase or not cars and the data we get out of them and we want to partner with you. And if -- so I think there is risks and opportunities, I think, the way of mitigating the risk is being part of -- being open minded to partner with people that have different distribution models. Then I think banks clearly have a variety of partnership models in mind. I think there's some real benefits of how you partner with them. We've really turned around our business with NatWest/RBS, by really closely linking our systems and theirs to make it really, really easy for their customers to get a great price from us and that's really working well.

So I think that model has some advantages versus putting in to PCW, but I wouldn't say that. And of course even PCW, you are absolutely right, we write about 40% our business on PCWs and Home. So we are in that channel too. So I think it's great to be across all the channels. I think net of all that, because I don't think any of us can necessary say where the future is exactly going.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Hi, Dhruv Gahlaut, HSBC. Two questions, firstly on the run-off book, could you quantify what is the reserve which is still tied there in the capital in that book? Secondly, just going back to the RBS renewal on your partnership, would we expect to see any change there as in terms of numbers, et cetera?

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean it's slightly historic reference, the renewal is couple of years back, until we are actually moving on the next one at some stage but that's a major budget. That's quite mature in Home, Rescue is a more recent deal and that's reflected in -- kind of in our numbers, but there is no big change, Mike. Yes, sorry. We are in pitch [ph] on travel with them and as we say these are travel and Rescue, it's really a volume, we would like to have the volume, because it means you can have more people with more languages, but it's pretty fine margin stuff, so we kind of do take or leave a little bit, but travel is the one with RBS we currently pitch, having got Home and Rescue.

A - John Reizenstein {BIO 6786139 <GO>}

I think the reserves were actually it's in the prelim, it's about 265 million in the run-off book. We didn't publish the capital number and you'd expect us to use our capital in other parts because of the PPO nature of it. We haven't yet mentioned the number, maybe I'll get it.

A - Paul Geddes {BIO 2474781 <GO>}

Good, last one, bring us on.

Q - Unidentified Participant

Let's see. So price comparison, you talked about the capability part of the game, isn't that mainly a cost game and so my question is how often do you come out top on the business you quote and price comparison Home and Motor? Second question on partnerships, same thing, I mean its capabilities but aren't the partners basically, just giving the business to the lowest price -- for the best price, and hence it's a winner's curse if you win that partnership? And thirdly, on the price increases you and the market have done, has that led to increased switching rates in Home and Motor?

A - Paul Geddes {BIO 2474781 <GO>}

Very good. So to deal with the last one first, so retention's up a bit in Motor, down a little bit in Home, but I mean all like plus or minus 1% on both but still Direct Line tracking levels, mid '80s in retention and people are shopping around, people shopping around, I think a bit more on Home driven by their prior year disclosure premium and again that's encouraging, we think that's the right thing to do, and we've kept an excellent retention rate, but down just a little bit on Home, just up a little bit on Motor. Partnerships, these were a bit selective, because you're right, partnerships fall into two buckets, commodity partnerships which generally goes the wire and there probably is winner's curse on that and then there's probably strategic partnerships, where people come to us. So people do come to us and go we love what you are doing in Direct Line, we love your digital front-ends, we love your API links, we love your accident repair centers, we love your propositions, we love your award winning customer experience stuff, so they come to us and then they're looking -- people with brand tend to want to work with someone that understand about brands and giving brand differentiation, great brand experience.

So there is all sorts of partnerships we want to win. We are happy to win some more commodity ones specifically where it gives us scale, are Travel and Rescue and then we're happy to walk away from quite a lot of them as well. So the word selective is quite important there. I think on PCWs, we to keep it stable, quite big share of it. We are pretty competitive, we win a lot every week. So we are pretty competitive. We quite accurately can benchmark. There's couple of payers that this is what they do all the time, PCWs and we can quite specifically say, okay, here's what they do, here's what we do, it's how they get a bit more competitive and still do at a good loss ratios and we know what those deltas are and we think we have the plans and the capabilities over the next couple of years to close some of that, lots about application fraud. Some of it is having price models specifically geared for PCW customer rather than Direct customer, because we tend to have, as I said, one pricing model.

So we have it in our sites. There's nothing I see in our way. I think on pricing as well, you got to look at the marginal costs is what really matters here. The cost of an extra policy, which increasingly will be Direct in self-service. So actually, we should be, we shouldn't be held back on a marginal cost basis and we should again benefit from the Group's brands, because we have fantastic brands and brands still match on PCWs, particularly in terms of better retention rates and we benefit from the Group's fantastic claims, fantastic accident repair centers.

So we have a lot of assets, and actually going from where we are now to where we want to be, these are all quite -- this is a small wins, so to say, actually pretty good to be winning so much business today to keep that business stable.

Q - Unidentified Participant

Application fraud, this is a major improvement you are going through?

A - Paul Geddes {BIO 2474781 <GO>}

Yeah, I mean we catch more fraud than anyone else claims. That's a great place to capture but they are not capturing it. We are doing more, rather not get any of it on the books and so we know the few things we want to do. So we're pushing forward progressively on that. We don't -- we are not (inaudible) -- we wouldn't that we wouldn't able to write any business, but we have some good initiatives there. Right. Thank you very much. Is there anyone on the phones?

Operator

Thank you very much to the panelists. (Operator Instructions) So at the moment, no questions coming through. So I'll hand back over to you for any concluding remarks.

A - Paul Geddes {BIO 2474781 <GO>}

Thank you very much. And before anyone gets here, we'll switch off the lines, but nothing hugely dramatic is going to happen. We just have one final slide, which is just to say goodbye to John. Some pictures of John. The great benefit, John and I, he's been actually getting older through the whole journey, evolving with the (multiple speakers) So John, always looks to not be there.

A - John Reizenstein {BIO 6786139 <GO>}

I am prepping my interviews.

A - Paul Geddes {BIO 2474781 <GO>}

(inaudible) So John is fantastic selection of non-work things to do. On John's behalf (technical difficulty) to be a fantastic board member because I think he has been an absolutely terrific CFO, fantastic colleague, fantastic friend and if you think about where we've come from, your questions will be, not everything is so often to do with business and Penny has still got lot of opportunities, but I think John has done a cracking job here. He has been a fantastic colleague, he has been a fantastic friend, he has been a fantastic CFO and I'd just like to wish him all success in the future, if you can join me.

Operator

Ladies and gentlemen, thank you for joining today's call. You may now replace your handset. Thank you.
