Y 2020 Earnings Call

Company Participants

- Costantino Moretti, Head of International Insurance
- Cristina Nestares, UK Insurance CEO
- Geraint Jones, Group Chief Financial Officer
- Milena Mondini de Focatiis, Group Chief Executive Officer
- Scott Cargill, Admiral Financial Services CEO
- Unidentified Speaker

Other Participants

- Alexander Evans, Analyst
- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Freya Kong, Analyst
- Ivan Bokhmat, Analyst
- James Shuck, Analyst
- Jonathan Denham, Analyst
- Paul Walsh, Analyst
- Phil Ross, Analyst
- Thomas Bateman, Analyst
- Unidentified Participant

Presentation

Milena Mondini de Focatiis {BIO 18674746 <GO>}

Good morning, everybody, and welcome to this second and hopefully last year's to our addition of our results presentation. A positive set of results as Geraint, our CFO, will detail later, with continuing growth and strong performance across our business as Cristina, Costantino, Scott will explain, respectively, for UK Insurance, International Insurance, and Loans. And these results were achieved while focusing on doing the right things for all our stakeholders and I will come back to this at the end of the presentation.

So many things have changed this year and to start with the way in which we communicate, as you will see in some of the cover slides of this presentation, which show pictures of some of the most typical Admiral event pre and post-COVID. For me, personally, there was also a major change in growth. I am truly excited to walk in the footstep of Henry and David and I'm particularly excited as I am inheriting an incredibly strong team and a fantastic company and platform for continued future success.

Let me remind why I think this is the case by taking a look back over the last decade before talking about 2020 and the decade that is to come. So what are the drivers of Admiral's success? First of all, there is a track record of delivering superior margin with the combined ratio that is substantially better than our competitors. And this is a result of a strong focus on the essential of insurance, claims, and pricing with an obsession for continuous improvement, combined with effective distribution, a cost conscious culture, and a lean operating model.

Second, these competitive advantages and the resulting growth in profits, give us the confidence to almost triple our customer base over the last 10 years, adding 5 million of new customers without even accounting for price comparison platform, out of which, more than half were in new geography or healthy new product and the investment to develop these new venture was less than 5% of overall Group profits.

The secret sauce in this mix, it's our culture, possibly the most difficult advantage to replicable. In every country and throughout the whole organization, there are great teams focused on providing great service to our customer, but also on being great colleague one for each other. We have been the only business that has been named in the Sunday Times and Great Place to Work list in UK since 2001. Why that's so important? Because people who like what they do, do it better. Finally, an efficient capital model as we can leverage on very strong reinsurance agreement that are highly possible because of the positive and long track record of underwriting results. This translates into higher return for our shareholders with an average that is consistently over 50%, more than double than comparison.

Now let's take a look at what happened in 2020. Last year, we delivered positive financial results and growth in UK and overseas as Cristina and Costantino will explain in more depth later. But what we feel most proud are two things. First, despite all the operational challenges and the many changes caused by COVID disruption, we also managed to make substantial progress on our longer-term strategy as I will explain soon. And second, in this difficult context, we remain true to our values, which helps us to navigate the unexpected and influence a lot of our choices, and we looked after all our stakeholders.

Starting with customers, first of all, we provide continuity of service by moving the majority of our staff to work remotely in just a few weeks. Second, we gave a refund of GBP25 per vehicle to 4.4 million customers in UK during the first lock down in recognition of less driving. And this was followed by substantial discounts thereafter. We supported more than 9,000 key workers by waiving, for example, the access fees or providing free courtesy vehicles and we allowed loan payment holidays for those who needed them. And the feedback for these has been overwhelming.

Staff safety was our top concern through the year. We provided flexible working arrangements and implemented many initiatives to support well-being at home of our staff such as additional holidays days. It has been incredible to see even stronger employment engagement scores despite the context. And we were named 14 Great Place to Work in the world.

But in true, we are aware that we work in a sector that has not been as negatively impacted by COVID as many others and we try to help the less fortunate through the Admiral COVID Fund and many other charity initiatives such as providing school equipment or donating tablet device to care homes. We also support our partners such as repair network in UK or outsourcer in Italy without forgetting our commitment to the environment and I'm pleased to report that we are now carbon-neutral drove setting [ph] while also continuing to use 100% of renewable energy in our UK premises. Last but not least, we deliver good outcomes for our shareholders with profit exceeding GBP600 million, driven by prior year reserve releases and decrease in motor claims frequencies. And achieved almost 10% of customer growth, mainly enabled by stronger retention rate across all the businesses. And finally, I also believe that we are in a strong position to continue to deliver in the long term.

If we look ahead, we can envisage more demanding customers, the availability of more data, and also material change in the way people will move around. In this context, our aim is to further diversify our product offering while delivering on customer expectations faster. To ensure that, we will focus on three areas. First, accelerate the evolution of all our core business toward what we call Admiral 2.0, Admiral that remains true to its historical strengths, but it is even more agile, it's digital first, embrace smart working and above all, we aim at keeping improving customer experience, leveraging on data and advanced analytics even more than before.

Second, we need to continue our product diversification journey to develop stronger proposition for our customers, but also to increase our engagement and reinforce our relationship with them. How? First, by continuing to support successful or promising businesses such as household or loans in the UK and then by continuing to explore new opportunities that are adjacent to our core and where we think we can deploy our core strength. Finally, in the longer terms, change in mobility will come with risks and opportunities. It is very early stage now but we intend to serve, learn and prepare.

So why 2020 was such a strong year in that respect. It's fair to say that COVID played an important role here putting additional pressure on our digital agenda, forcing us to move remote working almost overnight and forcing customers to rethink their mobility and their living habits as well as also accelerating other pre-existing trends. In 2020, we doubled the number of machine learnings model pushed to production, moved a large part of the business to scaled agile, transition the majority of our customer data to the cloud and materially improve our NPS score in every country. And there is so much more to do.

On the product side, we not only improved household results substantially and strengthened our -- the foundation loans as Cristina, Scott will explain later, but also planted more seeds overseas with the launch of pet insurance in Italy and household insurance and L'olivier brand in France. We also set up Admiral Pioneer, a team for the exploration of new opportunity in the UK. To clarify, Pioneer is not an investment vehicle or traditional incubator. Our aim is to continue to do what we have always done in the past. Pass new ideas, support the promising ones and kill the others. But we will do so with a more inference [ph] approach, which will give us speed from one side and limit the destruction to the core, which remain our priority on the other side.

And finally, just let me bring an example of the exploration within the new insurance models. Veygo is a UK brand for short-term flexible insurance. It was launched in 2017 and counting 150,000 customer last year. It's small with a turnover of 14 million, but it is growing and it is an interesting vehicle for us for further test and learn of new mobility trends.

So, to conclude, despite the challenging (inaudible) of a terrible pandemic, we had a good year with good results. We made strategic progress and we remain true to our value and our culture.

And now to Geraint to share our results more in detail.

Geraint Jones {BIO 19738535 <GO>}

Thanks, Milena. Hello, everyone. I'll cover some of the main features of a positive set of results, looking at the top line and of course profit. I'll give a quick update on a few pieces of financial news and I'll finish by looking at our strong solvency position and increased dividend.

First up, these are some of the highlights. And in a year dominated by COVID, the story is positive pretty much across the board. Considering the backdrop, customer growth was especially pleasing at 10% and turnover was also higher. The profit increase, as you saw earlier, was significant and our return on capital was in line with 2019 at over 50%. Solvency ratio remains very strong, just under 190% after taking into account a healthy 12% increase in the full year dividend.

Let's get into some of the details, starting with turnover and customers. As I mentioned, given the backdrop in 2020, which included some sharp decreases in demand for car insurance at times, I think this is a positive set of numbers. The increased competitiveness and very strong retention led to a very decent 9% growth in the UK Motor business. Turnover was only marginally up due to the GBP100 million impact of the stay-at-home refund and material discounting in the second half. Household business continued its positive momentum closing in on GBP200 million of turnover and 1.2 million customers, both up double-digits again.

Our markets outside the UK were more challenging in volume terms and so growth was more muted in aggregates compared to recent years, but progress continues. 13% higher customer numbers, 20% of the Group's insurance customers are now outside the UK. French growth remained very strong. Positive top line results from the comparison businesses and as previously flagged, we saw a fall in the net loans balance due to the prudent approach of Scott and team that we will hear about later.

Now to look at some of the detail behind the big increase in profit and that tends to be the case with our results. Loss ratios are a key driver of profit movements and that's especially the case with these 2020 results. Group profit was GBP112 million or just over 20% higher that 2019 at GBP638 million. Remember that the 2019 was negatively impacted by an Ogden discount rate change, which hit the result by nearly GBP35 million. And so I think of the increase more in the order of GBP80 million or 15%, clearly still a positive outcome.

The UK Insurance result nearly hit GBP700 million with the increase predominately down to two factors. Firstly, higher investment income, and secondly, despite the stay-at-home refund and the significant discounting, there was a notably lower current year loss ratio, which offset reduced -- there is still high levels of prior year reserve releases. The household business doubled its profit to around GBP15 million, also seeing a better current year loss ratio and associated profit commission income, pleasing result.

A lower loss ratio also helped the International Insurance segment report its first overall profit and a GBP10 million improvement from '19 to '20. All the European insurers reported positive results and there was a lower loss in the US, too. We signaled at the half year results that we expected a smaller loss from Admiral loans in the second half and that's proven to be the case and we report a loss of just under GBP14 million for the year. Scott will share the details shortly, but we end the year with what we believe to be appropriate provision and we're well set for 2021 and beyond.

Not too much to say on the other costs. There are some non-recurring items in there such as costs related to the comparison disposal, as well as some of the big projects like IMAP and IFRS 17. Share scheme cost is still a big majority though with a slight increase year-on-year notably due to the higher share price at the end of the year.

Moving now to look at the strong solvency position and higher final dividend, this top chart shows the capital position in terms of the requirement, surplus, and a solvency ratio. As you see, the ratio is broadly consistent and strong, running at just under 190%. In 2020 versus 2019, higher profitability has led to notably higher capital, but also a larger increase in capital requirement that we usually see, reflecting higher profit commission risk from those higher profits. In absolute terms, the surplus capital level is around GBP100 million higher year-on-year even after deducting that final dividend.

Speaking of which, as you can see on the bottom here, the proposed final dividend is 86 pence per share. That's a touch under 90% of the H2 profit and that's 12% higher than the final dividend from last year with the deferred part added back. That's consistent with H2 profit increase. A 12% increase in the 2020 full year dividend follows a 11% increases for the past three years.

I'll give quick update now on some other topics. Firstly, hopefully it didn't pass you by, but we announced back in December that RVU will acquire most of our comparison businesses with the exception of Compare.com. It remains subject to approvals and we expected to complete in the next couple of months. The reasons are hopefully well understood and we firmly believe it's a very good outcome for all parties. We will confirm the plans for the proceeds after completion, most likely with our interim results announcement in August.

On reinsurance, I expect we will conclude extensions for the UK business by the end of the first half. No big changes expected there. And just a reminder that we'd expect investment income to come under a bit of pressure in 2021. No major changes to the mix of assets over the last year or to be expected in 2021.

And finally, a quick update on our internal model progress. Following discussions with the regulator in the latter part of 2020 and earlier this year. We've taken some time to review the design of the model and that will result in a further delay to application, which we now hope to be next year and not in 2021. More news later in the year.

And to wrap up the key messages from my section. In a year totally dominated by COVID, it was pleasing to see continued growth in almost all parts of the Group, along with some reductions where we'd want to see them. Profit was significantly higher with various factors contributing, including lower current year loss ratios in several businesses and a familiar positive story on solvency and dividend.

Over now to Cristina to update us on the UK business. Cristina?

Cristina Nestares {BIO 18674745 <GO>}

Good morning. I'm going to talk in more detail about the results of the UK Insurance operation. Starting with the highlights, we had good growth in our motor book of 9% as we decreased prices more than the market. We also had good profits due to reserve releases and the impact of COVID on frequency, but also COVID had a negative impact in our additional income and we decreased this income due to less claims and a shift to digital. Beyond motor, in our household book, we had good growth, both in terms of units and profit and we experienced a limited loss in our small travel book. For 2021, we expect a higher increase in frequency, which will translate in towards loss ratio.

Let's start looking in more detail at prices in the market. It's been dominated by COVID. In the first quarter, we saw some price increases, but then since COVID, we started to see prices in the market decrease. In Admiral, we have done bigger decreases than the market. As you can see in the graph on the top, this is a comparison of the Admiral time stock indexed to 2019. As you can see in the graph, in the last part of 2020, we became much more competitive and actually we were 20% more competitive than the previous year.

In terms of retention, similar story. You can see in the graph on the bottom that the Admiral retention has been traditionally higher than the market, but in the past few months, this gap has increased. Two reasons for this. First, the decrease in our rates, which we have done to pass the savings to the customers, but also an increase in the trust in our brand following the refund. So, overall, strong increase in units of 9%. However, turnover increased by 1%. Why these? Several reasons. First, the rate decreases, the rebate, but also a change in the mix of business that we had in the market. We have less drivers, less new cars, and finally a decrease in additional income.

Moving now to talk about loss ratio and profits during 2020, we had a strong profit. Like in previous years we said releases are an important part of the profit and we made a release of 23% which is in line with our average. Also, we have kept a similar level of conservatism in our results. We also experienced a very good loss ratio in 2020. In the graph on the bottom, you have the difference between the loss ratio in 2019 and the loss ratio in 2020. As you can see, very strong reduction in frequency, which has been partially offset by an increase in severity and an increase in premium.

Now, let me explain you in more detail what has happened to claims in the market. We've been talking about a reduction in frequency, which was especially strong during the first lock down, but we also have an increase in severity. Some of these have been caused by pressure on our guarantees which has made the length of the repair longer, increasing the cost to operate higher. Also, in the case of Admiral, we have provided ongoing financial support to garages and also to NHS and emergency workers.

On the bottom, you have two graphs that compare Admiral performance to the rest of the market. In the first graph, you can see the average of our claims cost which are significantly better than the market and also on the graph on the right, you can see a comparison in terms of complaints per claim. I think it's very important to highlight that we managed to have very good claims cost while also delivering very good service.

Moving on to additional income, as you can see in the graph, we can see a reduction of GBP5 when we compare the second half of 2020 to the year before. Two key reasons that explain these. First, part of our additional income is made of income at non-fault claims. So a reduction in frequency has impacted this. Secondly, there has been an acceleration to the shift to digital, which has also impacted additional income. For the future, we expect this revenue to stay flat and not increase to previous levels. So even though we expect an increase in frequency, which will increase this revenue, we also feel that the whiplash reform will increase the cost of providing Motor Legal Protection by a few pounds and also we expect to see a continuation in the shift to digital.

In terms of our household results, we have seen good or 2020 has been a good year for profits and growth. COVID has had an impact on the claims. We have seen an increase in accidental damage, a decrease in the spend on escape of water and a reduction in theft cases. In terms of growth, we have seen a good rate than to premium reduction that we have made to pass savings to our customers and also to the continuation of a cross-sell that we do with our multi-cover proposition. For the future, we expect to continue growing size and profit, but we also think we will return to more normal levels of growth in profits.

Now, before finishing, I would like to talk about our views for the future. For 2021, we expect frequency to increase to more normal levels, which will impact the loss ratio, making it higher than it was in 2020. We think that the market needs to unwind some of the COVID-driven discounts that were made in the past 12 months and even though the whiplash reform will impact prices, we think it's going to be a small impact. That is because the market has already started taking these into account.

In the case of Admiral, we have already started unwinding some of the discounts and we have recently done increases in our rates. Beyond this, what to expect from the FCA pricing change? Well, it is still early to know exactly what is going to be the content and the timing of this reform. But in any case, we think that Admiral is in a good place, because, first, we have a customer base that is very used to comparing prices every year. Secondly, we think that after the reform, being a good underwriter, it's going to be more important than ever and that is basically handling claims well and being able to price based on risk and this plays to Admiral's skills. And finally, we think that in Admiral we have the capacity to adapt well to changes in the market. So overall, even though there is a lot of uncertainty, we hope that we will be in a good position.

So, in summary, 2020 has been a good year for the UK Insurance business, good growth and a strong growth.

And now I'm going to pass you to Costi who will talk more about International Insurance.

Costantino Moretti {BIO 19792620 <GO>}

Thank you, Cristina. Good morning, everyone, and welcome to the International Insurance. If you had asked me a year ago, do you think it is possible for International Insurance to achieve a strong result during a global pandemic, with everyone working from home and no face-to-face meeting for over a year and guaranteeing an excellent customer service, I probably would have said no. And I would have been wrong.

I am pleased with what the team delivered in 2020. An overall strong performance, proving that our business is resilient. We made good progress in the US and delivered another year of sustainable growth in Europe.

Let me start with our US business. In the US, we consciously prioritize bottom line improvement rather than aiming for top line growth. 2020 has been a year of good progress in the US, in particular in two areas: risk selection and loss ratio improvements and operational efficiencies. I know you might be asking how can you say that Elephant has improved the loss ratio net of the positive COVID effect. Well, if we take a look at the graph on the bottom left of the slide, it represents the changes in the loss ratio indexed at 100 in Q3 2018.

You can see that Elephant, the blue line shows a larger improvement than the market, the red ones. Hence, taking the market trend as a proxy of the positive COVID effect on the loss ratio, this implies that Elephant has also improved independently from the lower frequency-related to the pandemic. The improvement of the combined ratio over the last few years is a result of a combination of factors. We have focused on improving technical fundamentals, as well as invested in digital enhancements to strengthen the business. We expect this to continue in the future, not necessary at the same pace. In conclusion, good progress in establishing a sustainable digital insurer in the US.

Let's now move to Europe. For the first time, all the three European businesses are profitable and we achieved our record profit on a combined basis, again driven by our largest operation in Italy ConTe. The progress of the European insurance is evident also net of COVID, although less strong. Indeed, whilst the pandemic has had an obvious positive impact in lowering the claims frequency, it has at the same time significantly pressured our volumes and premiums. We estimate that removing the COVID effect, this will still have been a year of growth and profitability with Admiral Seguros and L'olivier nearly breakeven and ConTe largely profitable.

Digging deeper into the top line figures, there are a couple of additional points I would like to make. L'olivier in France delivered a very strong growth for another year in a row and we continue to experience a clear premium conditions in Italy and Spain, which resulted in a modest growth in turnover whilst we achieved a notable growth in the customer base. Finally, in Europe, we are progressing well in delivering more digital services to our customers through agile operating models that help us in making our customer happier and our businesses more efficient.

In conclusion, International overall delivered a strong performance, proving that our business is resilient. We made good progress in the US and delivered another year of sustainable growth in Europe.

Thanks. Now over to Scott and our Loans business

Scott Cargill {BIO 20595803 <GO>}

Thank you, Costi. Good morning, everyone. Today, I would like to share with you how our Admiral Loans business has also proved to be resilient in 2020 Yes, our growth was impacted by COVID as we took a prudent decision to pause new loan originations for part of the year. Having said that, our customer payment performance has been good and we have made large provisions for the projected future increase in UK unemployment. We finished the year optimistic of the near-term future and we will return to growth in 2021.

One of the things I'm proud of and that gives me confidence for the future is in a true Admiral way we deliver the right solutions for customers and they like what we deliver. You see two pictures here. The first pre lockdown and early 2020 (inaudible) us serving over 100,000 loan customer and the office back in Cardiff. The second is from just last month, when Admiral Loans won best lender in both the personal loans and car finance category at the Moneyfacts awards. These awards are exclusively voted for by customers, a nice way to start the year.

As Geraint highlighted, we have built a GBP13.8 million loss for 2020 which you can see is after a provision charge of GBP25.8 million. This is a 11.5 million higher than 2019 and it was GBP15 million for loans which remain fully up-to-date reflecting the expected increase in UK unemployment. We have a track record of consistently improving actual loss performance as you see in the chart on the bottom left-hand side. This shows 12 month customer payment default outcomes for each monthly cohort since our launch in 2017. And it's pleasing to see from industry benchmarking data, we are among the best performers over that period. You can see the actual loss performance has consistently improved during that period and that 2020 has in fact been in line or better than prior periods. Also worth highlighting that we finished the year with less than 1% of the book on payment holidays.

What this looks like in [ph] coverage ratios is an increase from 4.9% at end of 2019 to 10.4% at end of 2020 and unfortunately a 3.8 times increase on the provision for performing loans from 1.5% to 5.8%. This reflects the uncertainty in the macro environment. We started 2020 proving the growth capability of the business by getting record volumes (inaudible)

As you can see from the chart on the bottom left-hand side, when the COVID crisis emerged, we responded quickly and paused new business entirely in order to focus our attention on existing customers. We reopened the new business in July where we chose to take a cautious approach for the rest of H2 and having (inaudible) models and underwriting approach have returned to cautious growth in 2021.

Looking forward, we believe the evolution of the market plays to Admiral's strength where we believe key differentiators will be risk selection, product innovation, and a low cost to serve. Consumer behavior is also changing to be ever more digital and a wider range of behavioral data is becoming more important to predict how loans will perform in the future. We also welcome the regulatory direction and of the Board review of the unsecured market which does suggest end time [ph] and with more transparent pricing and products, which aligns with Admiral Loans' aim to provide affordable lending products for met range risks for a real rate pre-approved offers. In terms of guidance, we expect gross loan balances in the range of GBP500 million to GBP550 million by end 2021.

In conclusion, Admiral Loans has also proved to be resilient in 2020, validating the strength of what we have built over the past three years and further convincing us of the opportunity to build a scalable business, making a significant contribution to the Admirable online. We had a rapid response to COVID and paused new loan originations for part of the year, resulting into fair growth and we are optimistic for the near-term future of a return to growth in early 2021.

With that, I'll pass back to Milena to wrap up

Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thanks, Scott. One of the collateral effects of a crisis, it is to test what people and business stand for, how their priorities and the balance between the year now and the long-term change when under pressure. So what does Admiral stand for? This came out even more clearly for us this year. We want to ensure that our products deliver a good value and are fairly priced and therefore affordable and inclusive for more people, even when this meant giving back GBP110 million. We want to help and provide peace of mind for the future particularly where the future is more of a certain as it was the case this year.

We want to look after more people, particularly when they needed the most and we are trying to find new ways to do things better every day, little by little, by using more data, testing and learning, always striving for excellence and we do so together as a team that is deeply ingrained in our culture. In summary, help more people to look after their future, striving for better together. This is the revised purpose statement of Admiral and you can read through -- you can read this through different lens. First, the customer as we protect what's important to them. Second, our staff, as we empower them to achieve their full potential and third, the larger community. Not only as we provide great employment opportunity in a company that is a great place to work, but also as we contribute to address broader challenge as social mobility or climate change.

And we want to make a contribution, because we care. Is this alignment of different stakeholders has always been a distinctive feature for Admiral and it's well ingrained in our model. We do have long lasting relationship with our partners in distribution, our issuers, our customer who tend to stay longer with us and our staff with an impressive average tenure in the business, And we managed to do this, not only because we really care, but also we take -- because we take a long-term perspective in our decision making and something that underpin this is our reward system that is based on Admiral's shares rather than short-term incentives. All Admiral employees are shareholders.

In conclusion, we continue to strengthen the company year-after-year. Our strong foundation has supported positive results that we have delivered an outcome for all shareholders. We made progress in product beyond our core business and beyond UK and our unique focus on creating long-term sustainable business is preparing us for tomorrow and beyond.

Now, before we close, I would like to take a moment to say a big thank you to David. Thank you, David on behalf of Admiral team for your invaluable contribution to the business and for being such a great reference and fantastic role model for all of us. Thank you very much for your attention and we are now happy to take questions.

Questions And Answers

Operator

The speakers will move into a live Q&A session with Milena, Geraint, Cristina, Costantino, and Scott. (Operator Instructions) And the first telephone question is from the line of Jonathan Denham of Morgan Stanley. Please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thanks very much for taking my questions. Firstly, UK Insurance is going to be impacted by an increase in their corporate tax rate. I was just wondering how much you thought would be passed on to consumers via higher prices. And then second, today's release said you had confirmed your intentions to use the Penguins Portal proceeds after completion. Just wondering if you still expect to return the majority of the net proceeds to shareholders. Thanks.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you for your question, Jonathan. Geraint, do you want to take these two?

A - Geraint Jones {BIO 19738535 <GO>}

Can do. Hi, Jonathan. On the first one, on the tax increase, I wouldn't expect us to pass that to customers. I think our approach is to pay out most of our net profits to shareholders. And so I would imagine that the impact might be felt there rather than in pricing.

I didn't catch the second part of the question. Sorry, could you repeat?

Q - Jonathan Denham {BIO 19972914 <GO>}

Sure. It was just saying, today I think you said you had confirmed the intentions for the use the Penguin Portal proceeds. On the initial release you said you'd expect to return majority of the net proceeds to shareholders. So I was checking if there was a change there or is it still expected to return majority?

A - Geraint Jones {BIO 19738535 <GO>}

Yeah, no change in that. We will confirm the plans after completion with the results in August.

Q - Jonathan Denham {BIO 19972914 <GO>}

Great. Thanks, Geraint.

A - Geraint Jones {BIO 19738535 <GO>}

No probs.

Operator

The next question is from Freya Kong of Bank of America. Please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good morning. I've got two questions on UK motor. So first question is, your reserves are typically set quite prudently because of bodily injury and they tend to unwind in outer years. Could you help us understand the composition of the 2020 accident year reserves and whether we should expect to see a lower level of unwind in outer years. Second question is, we've seen a lot of positive development on the 2019 book loss ratio from 92% down to 76%. What's driven this and will you continue to set loss picks this conservatively in the future?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Sorry, I was in mute. Thanks a lot for your question. Cristina, do you want to take the second one and Geraint take the first one?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, thank you. So on the reduction of the loss ratio in 2019, several reasons. The first one is the normal releases that we expect, given our conservative approach. But secondly is that when we look at the 2019, on an underwriting year basis, there was a reduction in frequency that affected some of the policies underwriting that year.

A - Geraint Jones {BIO 19738535 <GO>}

On the first part, the 2020 claims cost does have lower levels of large injury claims than in the previous years. The mix is actually slightly different and there is actually a slightly bigger share of larger new claims in the total, but the absolute number is clearly smaller with a lower loss ratio. So in absolute terms, it's probably fair to say that there is less positive development that come out in future years on 2020 accident year. But the approach remains the same with the numbers you see in the slide will be -- would be cautious and the numbers that we book in the accounts will continue to be cautious and the relative size of the buffer and the claims reserves is flat year-on-year.

Q - Freya Kong {BIO 20097488 <GO>}

Great. Thanks.

Operator

The next question is from the line of James Shuck of Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thanks. Good morning, everybody. My first question is around new level of conservatism on reserves. And so within that, if I just look at the 2020 margin over the assessment, which I would look at on an underwriting year basis. So I look at the ultimate versus the booked and it looks like you're booking the loss ratio then 9 points above the ultimate for the 2020. In normal years, in 2018 and 2019, that margin or the best estimate for that underwriting year looks like it's normally around 5 points as supposed to 9. So if you could just comment on that. And linked to that, if I look at the booked loss ratio in the accounts, which obviously is a slightly different basis, but it improved by 20 points to 72%. The accident year bridge that you show, which is on a different basis, but that's improved to 11 points. So if you could just help me square that movement as well that would be helpful.

And my second question is around the FCA reform. So obviously there's going to be changes to the pricing of new business and slightly this pricing will go up in order to justify the same customer lifetime value. As those products are introduced into the market, which look very much likely that's going to happen in 2022, would you expect some one-off earnings impact as the new business price is through and how do you think about the EPS impact as that happens? Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you very much for your question. Geraint, do you want to take the first one and Cristina take over the FCA pricing reform?

A - Geraint Jones {BIO 19738535 <GO>}

Yes, I do. Hi, James. I'll take the second part of the question first, which is about the movement in the booked loss ratio in the accounts versus the ultimate in the slides. What you saw in the slide is the '19 accident year improved a few points. And so if you look at the original 2019 estimate on an accident year basis, that was 79, actually it's higher than that. It was in the low 80s and that improved something in the order of 15 points to the first projection of 2020. And I think the movement in the booked calendar year loss ratio account was 14 points. So we'd consider that to be basically in line.

And the first part was about the amount of conservatism as booked in the current underwriting year. As you say it, it is 9 points on 2020 booked versus ultimate underwriting. There is no particular reason for it being slightly bigger than in the previous years and it's been in 9 points or actually higher before. We think of the margin as I think we said before, in aggregate of course all the underwriting news, you usually see a pattern where the level of conservatism i.e., the gap in booked versus ultimate loss ratio will increase as the year becomes less developed and that's typically the case. But no particular change. The level of conservatism, i.e., the book loss ratio overall divided by the best estimate claim reserve overall is flat year-on-year.

Q - James Shuck {BIO 3680082 <GO>}

(inaudible) because this is a quite complex topic. So just very quickly, it looks to me like the 2020 book to loss ratio in accounts actually improved by 20 points from 92 down to 72. And obviously some of that is going to be frequency driven, but again I understand that the opening (inaudible) the explanation gives us -- given that it still seems a very large movement, but maybe we can take it offline, but anything you can, add anything else?

A - Geraint Jones {BIO 19738535 <GO>}

Yeah. If you look at page -- if you got the accounts release in front of you, if you look at Page 23, we've got a reconciliation there shows it's moved from 87 down to 72 which is 15 points and 1 point is explained by the impact of the Ogden discount rate change last year. So it's net down to 14.

Q - James Shuck {BIO 3680082 <GO>}

Okay. I was looking at the loss triangles on Page 71 of the results, but I'll circle back later on that. That's fine. Thank you.

A - Cristina Nestares {BIO 18674745 <GO>}

In terms of the second question -- sorry apologies. Just to answer the second question you ask about the impact of the FCA reform on market prices. So I would agree with what you mentioned that we expect both for car and for household an increase in new business prices, basically right after the FCA reform is implemented and then a decrease in renewals. However, it's going to take some time until the markets adapt all these changes and we fully understand the dynamics in the market. Just to point out that new business in general tends to be more elastic and renewals more inelastic and therefore it will take some time and it will take some changes until a profitability in the market is the same.

Q - James Shuck {BIO 3680082 <GO>}

So you wouldn't expect any earnings impact in 2022, 2023 if the proposals are enacted?

A - Cristina Nestares {BIO 18674745 <GO>}

There could be -- yes, there could be an impact especially when the reforms becomes life and we could see an erosion in margin, but I think that it should be temporary, and companies will adjust prices accordingly. In the case of Admiral, we feel that because our customers are very used to shopping and comparing prices every year and because we tend to be very strong in underwriting, both claims handling and pricing, we should be better equipped to take advantage of this reform.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay, thank you very much.

A - Cristina Nestares {BIO 18674745 <GO>}

Thank you.

Operator

The next question is from Ben Cohen of Investec. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. I'd just like to ask on Slide 18 where you have the bridge on the accident year and you discussed the improvement in frequency and the worsening in severity that you saw '20 on '19. I just wonder if you'd make any sort of forward-looking comments in terms of how you see frequency and severity developing this year and maybe a little bit more detail around what the swing factors could be. And also related to that, if you'd be prepared to say a little bit more about what you're seeing on motor pricing now in the market, please.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Cristina, I think these are all for you.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. Well, first, in terms of severity. We think that the impact or increase in severity of just basically repairing cost is related to COVID and therefore is temporary. So ex-COVID, we don't expect a significant change in the severity trends that we have seen in the past. However, with less reform, we'll start impacting claims from or after May 31. And therefore that will start impacting severity and frequency of small BI claims.

In terms of frequency, it is a bit harder to predict. It will depend on what is the evolution of COVID and how the lock down measures evolve. If we take the current estimations from the English government, they are talking about frequency towards the end of -- sorry, towards the end of June at a time where things could start going back to normal.

However, the new normal will possibly have lower frequency that we have seen in the past.

You also ask about where we are seeing prices in the market. As you saw on the graph, we were mentioning that we have seen prices decrease even more in the last quarter of the year. Also, the Confused index for the month of January said that prices during that month had decreased 5 points versus December which is a very strong decrease for a month. In this environment, in Admiral, we have started putting prices up. We think it's the right thing to do because we expect frequency of the policy that we're selling today to be higher than the policies we were selling before, basically because of the impact of the measures of lockdown easing out. Hard to tell how the rest of the year will evolve, but we think the market will need to unwind some of the discounts that were given in the past 12 months as frequency continues increasing.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry, could I just ask a follow-up on that? Have you seen in pushing up prices -- with the market reducing prices, have you seen a material impact to your retention in your new business, please?

A - Cristina Nestares {BIO 18674745 <GO>}

It's hard to mention. It's hard to see it, because the price increases that we put that are recent.

Operator

And the next question is from Thomas Bateman of Berenberg. Please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning and thank you very much for taking my question. Just the market is clearly little bit concerned about the discounting that you put through in H2. I guess, what can you say that gives you comfort on these actions? I mean, obviously we still required a large amount of claims frequency benefit to come through in the first half of this year. But what else could you point to sort of justify these price decreases? And secondly, Admiral was quite well in governance and social aspect of ESG, but thinking bigger picture, what are you doing to promote faster transition to electric vehicles? Can you talk about your EV business or maybe and slightly radical thought here, but could you envisage a market where you subsidize EV somewhat from the combustion engine that you write? Obviously this subsidy by the market (inaudible) is that something that is being talked about at all?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thanks a lot, Tom. Cristina, do you want to answer the first one and I will -- with the second?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. In regards to discounts in the second half of last year, we feel comfortable that that was the right thing to do based on the frequency patterns that we were seeing at the moment, but also the frequency we've seen now. So the policies we saw during the second half of last year benefited from the second and the third lockdown and they are seen or basically these policies are experiencing less frequency than before.

The second point is, severity trends. As I mentioned, there was an increase in claims cost inflation, but that was mainly related to lockdown and we're seeing those trends unwinding, but you've seen that sort of really give you comfort is that Admiral has been in the past very rational and the fact that we have already started increasing prices is the best signal that we will continue to be rational and we could continue to price policies adapting to what we see in the market, especially in terms of frequency and severity.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

On your second question, Tom, I think, yes, it's very important for us. We welcome the intention of [ph] market on this and we are investing more resource and tuning our plans. On the climate change, more specifically and the environment, the way we look at this is threefold, the way we operate. So as I mentioned, very pleased to say that we are now offsetting our carbon emission or couple emission has been verified by the trust and we're also looking at waste management and using the 100% renewable energies, and many more things.

Also looking at investment and how we invest in a more sustainable portfolio over time and growing in that regard, probably the biggest impact is, as you pointed out is supporting this change and these trends of electrification that is going to be quite massive expected to be 50% of new vehicles in UK being electric by in the next 10 years. As we've done for telematic, we intend to embrace these trends and invest resources to make sure that we become a great underwriter for electric vehicles. And I think that's going to be the biggest impact and understanding the specificity in terms of claims, understand how price --electric vehicle sector and try to help the customers deserve to have a cheaper price. I mean in this way, support the electrification.

There are also other initiatives that may indirectly support the world with less carbon like some initiative around products that provide more flexible insurance terms. So some people may be decided to not own a car, but rather use it on a temporary base and I mentioned Veygo as an example earlier on. So, just to mention that also we do already underwrite lot of electric vehicles. We have a good share of the market on electric vehicles. And as I said, looking forward to increase this over time. We will have spoke more and speak more about our target and our commitment at half year.

Operator

The next question is from (inaudible) Deutsche Bank. Please go ahead.

Q - Unidentified Participant

Thank you for taking my questions. Just two for me. So, first, you talked about Admiral 2.0 and also product diversification. Can you provide a bit more color around both of those and any associated investment spend for them. And second, and you're keeping Compare.com in the US, what's the long-term plan for this business and are there any targets that you can give to us?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

On your first question, both Admiral 2.0 and product diversification is not something new for us. The main message from me today was that we are accelerating on those areas, particular in Admiral 2.0, 2020 was a very strong year, partially because of some external factor that were accelerated by COVID. It is a trend in the market and we are investing more. If you look at our expenses, our expenses in tech in general has been growing in the last few years. I think now at a higher level. We don't expect necessarily additional growth in the future or substantial growth in the future. But what normally happen is that you increase a bit the spend in tech and digital and you may have some other lower expense that are driven by more efficiency as well. So not necessarily major expectation in terms of the overall spend as a whole.

Our priority in terms of Admiral 2.0 is not only the digital, but is also the data and analytics. There is so much more data available and also tools in terms of advanced analytics and methodologies. And we do believe there is potential to do more. And this is going to be a continuing trend in the next two, three years. There is also an element of how we operate. So we move to agile and smart working, remote working are also important features of this evolution.

Diversification is also something that David announced when he took over as the Group CEO. He spoke about an ambition of diversify outside motor insurance and outside insurance as well. If you look at the next five years, probably the existing business like loans and households are the one that we're going to have an impact and we believe they are going to contribute positively to our bottom line as well.

In the longer term, we hope to be able to prove our competence also aside those business and Admiral Pioneer as I mentioned is just a vehicle that will help us to accelerate this investment and this exploration. I don't necessarily want you to believe or to take away that we're going to massively increase our investment because we will continue to test and learn and use a relatively cautious way and approach as we always done in the past.

Your second question was on Compare. The Compare is -- we always look at our strategic option and we will evaluate them every year and regularly for all the business. Compare is -- it was in early stage compared to the other price comparison platforms. It's also a different market US, that requires more investment and it is a learning curve because acquisition costs are higher. So it takes a bit more time to mature. We reduced a lot of investment in Compare and brought it to a level that we feel comfortable and improve a lot of underwriting metrics. We're pleased with the progress this year. I would remain committed to continue to make a success of it. Having said that, of course, we always revalue our options.

Q - Unidentified Participant

Okay.

Operator

The next question is from Andreas van Embden of Peel Hunt. Please go ahead.

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

Yes, thank you very much. I've got two questions. One on reserves and one on capital. Starting with reserves, there is still significant reserve releases coming through from the 2015 and prior years and was also impacting profit commissions from that period, which is still quite elevated. How much is left here and sort of in the tank on these older sort of vintage years and what is driving these releases? And my second question is on capital. I'm just curious, what are the key final hurdles you have to sort of take in rolling out your internal model? What is causing the delay and could you put your finger on the key issue? Thanks.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Geraint, do you want to jump on both?

A - Geraint Jones {BIO 19738535 <GO>}

Yes, will do. Hi, Andreas. On the latter point on the internal model, is a bit of a frustration that we are seeing another delay. It's a very tough process. I know -- as you I'm sure you know and everyone has gone through it. Well, it's -- I'm sure you experienced a different timeline to the one they originally set out in their plan. We are very keen to get the application right and in a very good standard when it goes in rather than trying to rush in and we think that will probably be counterproductive. There aren't huge major problems and there is certainly no concerns from our side, at least, on the numbers that are coming out of it and the regulators are not indicating that they have got any problems with the numbers per se.

I think we will be taking a look at the way it's designed the -- particularly the approach to modeling large claims. It's a very important risk for us. Reserve risk is our biggest risk and the large claims are an important part of that. So we've taken some time to think about that. Nothing to be concerned of from a numbers point of view. Like I say, we would expect to get back into the pre-application process this year and then application next year.

On releases, I think that is a fair point. It is slightly higher than usual I think on '15 and '16 at this particular point. We would expect booked loss ratios to develop over that kind of time. Four or five years is not unheard of, about loss ratios to go down towards the ultimate level. What you see in the ultimate charts in the slides is that they stop moving right about that time. So there are couple of years on the far left hand side of that chart where there has been no development in the ultimate. And so once that starts happening, we'd be expecting to approach the ultimate point and be surprised to see much developments on '15 and '16. Also '15 certainly on the booked basis after 2020 if that helps.

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

Yes. Thank you so much. I appreciate it.

Operator

The next question is from Alexander Evans of Credit Suisse. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, thanks for taking my questions. First one, I'm just thinking about the risk, the higher inflation in the market going forward. Does that change your potential view of claims inflation or do you think current pricing actions are sort of capturing this and you've seen a lot of them moving already? And then secondly, just on the outlook of loans, I was wondering what your view on the UK employment was after yesterday's announcement on the revised forecast there. Is there a risk that you are too conservative with this year's provisioning?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you. And Cristina, do you want to take the first one and Scott, the second?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. In terms of claims inflation, in general, the market tends to be very quick to adapt. And as you said, they translate this into pricing actions. The more worrying trend is when you have a very unexpected increase in inflation, especially for the older claims, because you might end up having to pay a claim on large claiming in a few years, and then have a high level of inflation could affect that, but in general and in terms of the more normal inflation, the market prices.

A - Scott Cargill {BIO 20595803 <GO>}

Hello and hi Alexander. The main assumption that we've taken, our provision was that the weighted unemployment would be 9.2. I think that's a key figure. If you looked into the North, I think we show some sensitivities. And the latest forecast given after yesterday's budget would indicate that near to our upturn scenario. It depends on the timing. I think the previous forecast is indicating a peak in the summer and a peak of around 7.8 from the Bank of England, latest forecast indicating a peak of around 6.5 in Q4. So there may be implications, but ought to wait and see how it plays out.

Operator

The next question is from Paul Walsh of Field Gibson Media. Please go ahead.

Q - Paul Walsh {BIO 3076077 <GO>}

Good morning. Two questions from me, please. Firstly, just on a general basis, how are the experiences you had in 2020, how that shaped your kind of outlook for the future? And secondly, obviously it was mentioned during the presentation concerning the FCA's proposals about general insurance pricing and price walking [ph] et cetera. I know that was mentioned in the presentation, but can I just get your thoughts on that and what your kind of general feeling is about those proposals, please? Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you very much, Paul. Is your question on the outlook of the future of motor insurance or more in general. Can you repeat the first question? Sorry, I think I didn't get it.

Q - Paul Walsh {BIO 3076077 <GO>}

Sure. Yes, it's largely, in general, just about your sort of past experiences how they shift your outlook on risk modeling et cetera.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Okay. So 2020 was definitely not like an ordinary year in terms of its influence, like COVID impacts on results and COVID impact on motor frequency. I think in general, we expect a bit of a return to normal in the future. 2021 still will have lot of impact from COVID and so we will see a bit more of what's happened in 2020. But the big difference is that the premiums that were collected towards the end of 2020 and beginning of 2021 will already have embedded a lot of assumption for a reduction in frequency. So if you think about 2021, probably the underlying underwriting loss ratio is going to be higher and therefore the margin lower. Of course, part of our model is also prior year reserve release, that's also need to be taken into account.

In terms of the market, we expect that the other big impact outside COVID is going to be the FCA pricing reform that Cristina spoke about before and that again is actually something that may be material, but it's going to take time. It's going to be an evolution after evolution, because lots of customer have these habits to shop around. So we'll see some increase of new business price and renewal price times and extend is still there to be seen. And after that, in the longer term, I would expect those two things to normalize a bit more and so probably to come back to what we were experiencing before 2020.

In general, we also see like digital trend to keeping -- to keep extending and data analytics and a lot of those things also to continue. But I think in general we'll see a bit of a back to normal, that COVID and FCA, our investment to -- so things to take into account. I think we are in strong position as I mentioned. We invested or we are not alone investing navigating the year now, but a lot in the future and quite excited about the prospects for us also outside UK Motor and International Insurance and Household and Loans in particular. This was a bit of a high level view of the future. Happy to follow up if you have more questions.

And the second one was on -- gosh, remind me. (multiple speakers) Yeah, Cristina, do you want to take this one?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So I understood the question to be focused about our views on the reform. So I want to start by saying that we welcome this reform, but we understand this is something that wasn't working very well in the market. And we think it would lead to better practices in the future. It's hard to comment exactly, because we don't know yet the content of the reform fully and when it will be implemented. But overall, we think it's going to cause important increases in new business which slightly will have as a consequence that some customers that are very used to shopping and tend to benefit year after year from reduced prices are going to see a significant increase in the prices. So that will be our biggest concern.

In terms of Admiral, we have a very large renewal book. So of course, this could have a significant impact. We think our customers are very used to shopping around, compare prices on a regular basis and are happy with our level of prices. So we hope to be in a stronger position than some of our players. Also as the FCA has mentioned, the household market is going to be particularly impacted because that's when you see a much bigger difference between the older renewal books and the new business. So we expect to see much more changes there, with very high increases in new business and also high decreases at renewal. Overall, wait and see, but it could be an interesting time for Admiral.

Operator

The next question is from Phil Ross of Mediobanca. Please go ahead.

Q - Phil Ross {BIO 20618440 <GO>}

Hi, good morning. Just one question for me on solvency, please, on the SCR increase specifically. If you could just expand a little bit on the moving parts. I guess this is mainly driven by the capital add-on. And obviously, you mentioned the increased -- expected impact on profit commissions that are perhaps within that -- you might have expected a lower charge for PPOs if they remain less attractive given where rates are. So, yes, just little bit of extra detail on that would be helpful, please, if you can.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thanks a lot for the question. Geraint?

A - Geraint Jones {BIO 19738535 <GO>}

You're quite right to say that there is very little change in the elements of that capital requirement, which is PPO related. The big increase is profit commission risk. So that's the amount of profit commission risk that would be de-recognized from capital in the 100 and 200 scenario. In the past couple of years, profitability has increased quite a lot as we've talked about in 2020 and 2019 underwriting years particularly. When loss ratios improved to that extent, there is a lot of profit commission income that we would get and clearly

early on in those years' development, that's still at risk. And so that's what's driven the increase we see in the 2020 year end position versus '19. So, very limited change in PPOs. Big increase in profit risk at this particular point. We'd expect that to subside over the next couple of years.

Operator

The next question is from Ivan Bokhmat of Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thank you very much. I have few questions. The first one would be regarding the reserve releases. Just wanted to make sure we're still talking about this mid-term 15% to 20% release guidance, I think given some of the changes within that and maybe also if you could talk a little bit of how should we think about the commutation revenues given 2020 was so unusual and how will the commutation be booked in the future?

The second question I wanted to ask you about the reinsurance renewals that you mentioned could be completed over the second quarter. I'm just wondering if you're looking for any structural changes there that could affect our levels of retention or the profit commissions you will get? And maybe the final question, rather small one, if I may. We did hear about the success of your refund that has boosted the retention levels. I'm just wondering if you could give a little more color on that, at what level is your retention at the moment in the motor market and whether that trend has persisted since May? Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Geraint, I guess the first two are still for you.

A - Geraint Jones {BIO 19738535 <GO>}

Yeah, I think I might actually get three actually. I will try and do three and see what happens. On reserve release outlook, I think it's fair point we've historically said the 15% was the average. That's quite a long-term average. Over the past four or five years, it's been in the low mid 20s and in the immediate future, I'd expect that sort of level to repeat. We still got a conservative reserve which hasn't really changed year-on-year. So this -- if things develop as we expect them to, there's quite a lot of release to come out, so no real change in the outlook there.

On commutations, the impact this year has been less visible, less material than in previous years because of where we are booking, the most recent underwriting years i.e., at a profitable level. So the impact of commutation on the accounting really depends on the profitability and the booking of individual years. Happy to spend a bit more time on this, maybe a bit too detail for the call. And reinsurance renewals, we aren't, at this point, expecting any structural changes or any fundamental I think and we're hoping to get that done and probably roll forward in a pretty similar fashion. We'd expect to get that done by the half year.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

And, Cristina, do you want to comment on the impact on retention of the COVID refund and where we stand versus market?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, well, it's hard to give concrete figures about what was the impact of the refund on retention. What we have is two things. First clear improved results on our brand tracker. So we -- on a regular basis, we survey customers in the UK and ask about several brands and also their level of trust whether they will consider them for the future, whether they will choose them. And there is a clear, clear impact of the refund.

Secondly, in terms of the impact on retention, what we have is a lot of anecdotal feedback, on the website comments and also on the phone and customers saying, maybe the price is higher than they would like it, but they are comfortable to stay with us because of the refund. I'm not sure how long this will impact our results. But it's clear that it will certainly stay there for some time, as we continue to hear some of these feedbacks.

In terms of actual data on the market, we don't disclose this, but I'm happy to share that in general and despite our channel being price comparison and our average premium being slightly higher than the market, we tend to have retention, but it is slightly higher than the overall market and in the past six months, it's been almost mid single-digit up.

Operator

We will now go to the webcast question. Please go ahead.

A - Unidentified Speaker

Hi, there. There are two questions from the webcast. The first one is related to customer growth. The question is the volume of new customer growth is substantial. Are you comfortable on the infrastructure in place to manage the new volume growth. Would you be comfortable repeating this growth again in the near term, if opportunity arose or would you be looking to consolidate this level of growth and ensure margin is sufficient? That's the first question. And then the second question related to a comment on more insight into your household pricing, claims frequency, and claim severity patterns that we've seen and expect to see in 2021?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Cristian, I will start with the first and then happy for you to chip in and add and talk and move to the second. So, in general, we are happy with the growth. We tend to be very rational in flexing our growth depending on the market condition and also in this particular case, on our expectation of our frequency is going to change depending on COVID and what's going to be the impact of the reform to come, whiplash and FCA. So we'll take a rational approach to the growth in the future and we will -- and as we've always done, we tend to react relatively early to change in the market and in the external factor and we'll try to continue to do so, so we will be seen -- we'll see what competitors will do and what the market will move, but we tend to optimize our own decision based on our own data point. Our infrastructure is solid for growth and we have very solid infrastructure and operation. And that's true for UK and overseas. And so we will take the growth as it comes is what is best for the business.

Cristian, I don't know if you want to add anything on top or move to the second part of the question?

A - Cristina Nestares {BIO 18674745 <GO>}

Well, just to say Milena, as you mentioned, that we are comfortable to take growth because we understand, we operate in a very cyclical business and if you look at our track record, they have been years where we have grown at a similar level as in 2020 and there have also been years where we have been happy not to grow. So, yes, we operate in that sense. Also the next couple of years could be particularly interesting. We don't know yet, but there might be an opportunity once the FCA reform is implemented and prices in the market go up. So we might need to be ready to take volume very quickly. And also I think the fact that we have done a very strong move to digital and we have very strong systems and team makes it easier for us in the future to take more growth.

Moving on to the trends in household in terms of claims, well, in terms of frequency, we saw a reduction in claims frequency in the early lockdown, but after the lockdown it was recovered and it went back to much more normal levels. In terms of severity, what we have seen is basically a change in trends mix. So more accidental damage, although small, reduced theft claims clearly as people have stayed more at home and then severity around escape of water has also been reduced and we think that might continue in the future. So it's clear that as people are allowed to go out more and to travel, we might see claims going back to previous patterns. But we think some of these changes that COVID has brought in terms of spending more time at home will continue in the future. So our expectation for 2021 is similar to 2020, but less strong COVID impact. In terms of weather, 2020 had a bit of a bad weather. Especially at the beginning of the year, we had a few storms cost in Admiral actually 5 million, but this year so far the weather has been quite benign. So that's also important to consider.

Operator

And this concludes the question-and-answer session. Ladies and gentlemen, the conference has now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.
