Q3 2018 Sales and Revenue Call - Trading Update

Company Participants

- Paul Robert Geddes, Chief Executive Officer & Executive Director
- Penelope Jane James, Chief Financial Officer & Executive Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Dominic O'Mahony, Analyst
- Edward Morris, Analyst
- Greig Paterson, Analyst
- James A. Shuck, Analyst
- Jonny Urwin, Analyst
- Sami Taipalus, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Hello and welcome to the Q3 2018 Direct Line Group Trading Update Call. My name is Molly and I'll be your coordinator for today's event. Please note, for the duration of the call, your lines will be on listen-only; however, there will be an opportunity to ask questions later in the call

I will now hand you over to your host, CEO, Paul Geddes, to begin today's conference. Thank you.

Paul Robert Geddes {BIO 2474781 <GO>}

Thank you and good morning, everybody. Welcome to our Q3 update. As usual, I'm joined by Penny James and other members of my management team. Hopefully you've had a chance to read our trading update and have your questions ready.

But first let me run you through the highlights. We delivered another robust trading performance in Q3 as markets continued to be competitive. We believe our performance reflects the value of our strong brands, propositions, and customer relationships.

Motor and Home own brands performed well, both growing in-force policies. Our investments in direct Commercial and Rescue helped them also to grow in-force policies by 7% and 11%, respectively. We're also pleased with the strategic progress we've made in the quarter and we're on track to begin the roll out of our new personal lines IT systems next year.

Overall, our strong trading performance means that we are reiterating our full-year and medium-term combined operating ratio target of between 93% and 95% assuming normal annual weather and no change to the Ogden discount rate.

So now for a few words on each of the business areas starting with Motor. And at the end of Q3, our view of the year's currently on loss ratio haven't changed materially from how we described it at the half year. At the half year, we said that the market was rational with market premiums adjusting to reflect the changing Ogden outlook. We also said that claims inflation had returned.

During the quarter, market prices showed signs of stabilizing. Against this higher damage severity has led us to nudge up our view of underlying claims inflation towards the top end of the 3% to 5% range. Weather effects also drove high frequency this year after a very benign 2017 experience.

Against this backdrop, we put through some rate increases. Although not quite enough to cover claims inflation in the quarter, the business we wrote was still at our target loss ratios. Having priced a little ahead of the market, we're pleased that we still achieved some growth. Our own brand policies grew 0.7% compared to Q2, taking year-on-year growth to 3%. Lower average premiums meant that our own brand's GWP was down a little compared with last year as our price increases were more than offset by a lower risk mix. This mix change resulted from refinements to our technical price models and to our pricing strategy and to our promotional strategy I should say. As usual, we'll continue to prioritize our target loss ratios over volume.

Moving on to Home, we're pleased with the way we traded in Q3. Own brands policy count was up a little and average premiums were 1% ahead of Q3 last year. We achieved good price increases in our new business and also improved retention a little in the quarter. Most of the year-on-year variants in headline premium and policies continue to be the run-off of the Nationwide and Sainsbury's businesses.

Finally, a few words on the weather in the quarter. At the half year, we talked about the potential for 2018 to be a subsidence year, but I'm pleased to report that our latest view suggests substance claims, whilst higher, will not materially be higher that we would normally expect.

Next, on to Rescue where it was another strong quarter for our Green Flag brand, which grew premiums 13.2% (sic) [13.1%] (00:04:20) compared to last year. And in other personal lines, I'm delighted to announce that we've just agreed to renew our travel partnership with Nationwide to continue to supply travel insurance to their bank customers for another five years.

In Commercial, our investment in Direct Line for Business progressed well in the quarter and remains in line with our plans. DL4B grew premiums 7.6% compared to last year. Overall, Commercial premiums were flat in the quarter as NIG exited several larger risks, which we were not expected to meet our internal hurdle rates, offsetting the premium growth in DL4B.

And now for the outlook where our ongoing discipline gives us the confidence that we can achieve our combined operating ratio target of between 93% and 95% in 2018 and over the medium-term, supported by ongoing reductions in our cost and commission ratios. This still assumes a normalized annual weather load and no change to the Ogden discount rates.

For investments, we continue to expect investment return of about £150 million this year, boosted by £30.5 million of gains that we recognized in the first half.

So, in summary, we're pleased with how we traded this quarter. Markets remained competitive and we maintained strong momentum across our own brand portfolio as we continue to benefit from our ongoing investments.

And with that, operator, we'll go to questions.

Q&A

Operator

Thank you. The first question comes from the line of Thomas Seidl calling from Bernstein, please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good morning. First, on the Home, it seems pricing is flat for you in the market, but you also note that the claims inflation is 3% to 5%. So, is it correct to assume that there is quite some margin erosion in the Home segment and, hence, trading environment continues to be difficult there?

Secondly on Motor, you said pricing is not quite ahead of claims. Can you give a bit more color on what that means? And also maybe tell us why in Q3 a further deterioration happened? I mean, last year you said benign claims. H1 you said return to normal claims inflation now at the upper end. So, what has really changed in Q3 in claims inflation?

And finally on the outlook, you say above 15% return on tangible. Are you also comfortable to reach your LTIP target, which is 17.5% at the lower end? Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Okay. I'm going to take the Motor one and pass the other two to Penny. So, yeah, what's now dropped (00:07:19) in Motor is damage and what's nudging that up is frankly paints and parts, and a trend which we talked about before which is kind of increasing complexity of cars' driving parts costs. So, it's just slightly nudged up. We didn't quite price that fully in the quarter, but in the quarter we still hit our targets. The implication being to that is we were slightly above our targets going into the quarter. We had a little bit of a buffer.

And obviously we don't comment on future pricing, but our track record and our strategy is to hit the loss ratios that we need to hit. So, we're never worried about – we don't like to but we're always – we will always trade appropriately. And if that means a volume consequence, we'll take that consequence.

Penny, on the other two?

A - Penelope Jane James {BIO 15157212 <GO>}

Yeah. Home. So, it remains competitive very much as we said at half year, so slightly bifurcated market with lots of people putting price through but a couple of players that, at a point in time not doing so.

We got claims inflation running in our 3% to 5% long-term range. We have price claims inflation, so we're pleased about that. What we've seen is some mix changes, and that mean the average premium is only about 1% or so up, which is why you are seeing us up overall (00:08:38) amounts if you like.

But overall a pretty competitive conditions where we're pleased to have price claims inflation and pleased we got a small amount of growth.

RoTE, didn't quite catch the end of the question, but I think, yes, since we're not changing our outlook on RoTE at all. So, as per normal, we're comfortable with the target.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. My point on RoTE was you have a long-term target, which is 15% but you're LTIP from this year (00:09:06) 17.5%. And my question was are you also comfortable to hit the lower boundary of your LTIP (00:09:14) 15%.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I mean, just a second, I mean, 15% is a hurdle. It's blossoming (00:09:20). It's a very long-term target and some (00:09:23) which we used to appraise capital decisions and business decisions. We've long said that it's – and of course, the (00:09:30) to set RoTE targets suitably stretching to the business and those are set out. But, as Penny said, nothing to look at here, no change in outlook.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. And Home, did I get it right, you are not expecting a margin deterioration. Is that correct?

A - Penelope Jane James {BIO 15157212 <GO>}

That's correct with price claims inflation. So, the balance is in risk mix change. So, we're comfortable with the margins are flat and (00:10:01) slightly up.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Thanks. Thomas.

Operator

The next question comes from the line of Edward Morris calling from J.P. Morgan, please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Good morning, everyone. Thanks for taking my questions. The first one is just if we could drill down a little bit more on margins in Motor. So, you're talking about claims inflation at the upper end of this 3% to 5% range. I wonder if you can just talk a little bit more detail around average pricing and how it relates to average premium because you're mentioning here changes in promotions on PCWs. Can you just explain that a little bit?

And really, what I'm trying to get at here is some of your peers have been a bit more clear on this sort of current margin compression in Motor. Can you just help us to think about the level of profitability of the business you're writing today versus one year ago? Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Okay. So, we priced a bit up. Risk mix has come back the other way, so it's down to two things. One is as we read the technical price models, they just – a consequence of that is you'll get a different risk mix that you're competitive for, and that's happened to have gone to a lower risk mix, it could have gone to a higher risk mix. Those things is (00:11:14) kind of a phasing of promotions on PCW, so we're anniversarying a promotion where we did free Rescue, which tends to appeal to young drivers who've got slightly less reliable cars, replaced it with our most legal protection, which tends to appeal to older drivers with lower risk mix.

So, that's just kind of a phasing on promotions comment. So, none of this is a desire to have a lower risk mix. But everything else being equal, we'd like probably to have a higher risk mix, but it's just a consequence of our science and our promotional strategy.

Now, what we have said is to kind of – to guide a little bit is Penny said at the half year, if you remember, that probably a good reference point would be the immediately pre-Ogden level of profitability we're writing at, so the current loss ratios we achieved in the second half of 2016. And that's the kind of level which we'd expect to see in the second half of 2018.

Q - Edward Morris {BIO 16274236 <GO>}

Okay. That's great. Thank you very much.

Operator

The next question comes from the line of James Shuck calling from Citi, please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Well good morning, James Shuck from Citi. Two questions, please. Firstly, can I just return to your comments, Paul, about just the market behaving rationally? I mean, if I look at – I mean, you posted 0.7% growth sequentially on brands policy count Q3 versus Q2. You say you've increased rates. Could you just tell me what the risk adjusted increase in pricing was in Q3 for yourselves, please?

But also, just to square that with the market behaving rationally because most of the surveys that we see are still showing quite big declines year-on-year. I appreciate some of that new business as opposed to actually achieved rate. But it looks as if it's getting harder for you to generate growth and put through rate increase. So, can you just elaborate a little bit on that point for me, that'd be helpful?

Secondly, just in terms of prior-year reserve development, could you give us an insight into how that's evolving in the second half of the year? You did 13.2 points at H1 2018. So, just interested to know how that's developing given some of the trends on the claims inflation that you'd mentioned?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Great. Well, thanks, James. So, we're not going to disclose exactly the percentage rate. We do that twice a year now. We think we probably don't want to over disclose. But we did get some (00:13:40) rates away. As we said, it wasn't quite enough and therefore we kind of go back to our target. We're a little bit ahead of it. So, we have some trading room for maneuver, which we used in the quarter.

I think we've said that the market rationality comment, if you remember, we did an excellent chart (00:13:56) at the half year I thought about saying, when there are very clear input cost changes over the last couple of years, the market has responded pretty quickly to those changes. So, the nature of claims inflation is probably somewhat harder to read because you got to be taking severity and frequency and underlying weather. And so, as I think Penny said last time, it may well be that the market will maybe lag a little bit. We obviously don't know the direction of the market, but we're not calling anything out in terms of – nothing to worry about the market and we're reassured to see the market stabilizing, which is a change in direction as it was at the half year.

So, we're kind of encouraged by that. Immediate past history says the market has behaved rationally. We will, of course, take our own choices and see into (00:14:47) the market. And we have a very clear sense of the loss ratios we want to be writing at. Penny?

A - Penelope Jane James {BIO 15157212 <GO>}

PYD. Yeah. You may recall at half year I said we do the bulk of bodily injuries sort of large bodily injury reserve reviews in the first half and the second half generally there's less coming through in prior developments. So, in effect, no new news on PYD since what we said at half year.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you.

Operator

The next question comes from the line of Sami Taipalus calling from Goldman Sachs, please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. Hi. Morning, everyone. A couple of questions. First on Motor IFP growth, you've (00:15:37) through a period of fairly strong growth here. But am I – sort of (00:15:41) interpreting your comments right there that you're perhaps approaching the point where you're coming up to your target loss ratios and maybe we should moderate our expectations in IFP growth a bit?

And then the second question I wanted to ask was on the FCA and CMA reviews into pricing practices in Motor and Home insurance. It'd just be really interesting to hear your view about how you see this and what's the potential risks and outcomes? If there's anything you can say, that would be great. Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I mean, I think what we're saying on Motor is really it's down to the market to a certain extent what our volumes will be because we will price it here at (00:16:21) the loss ratios that we want to hit. And if the market allows, we'll grow and if the market doesn't, we won't. So, the goal seeker for loss ratio and the outcome is the – of our competitiveness is the volume consequences. So, I think we're pretty clear on that. So, it's kind of in a way not down to us. So, we'll see.

The FCA is a natural next step on their process. We've been working with them in the industry over the last few years on it. I think we've characterized the market working well for most customers but low barriers to switching, very easy to shop around, and we speak to 80% of our customers each year, customer engagement is very high, customers shopping around is very high. So, we think it's the market that generally works well but, of course, the question is, are there some customers who probably work less well. (00:17:11)

Obviously, it's a new topic we've been really on this case for a number of years. Actually, it's encouraging to see that in the CEO letter, all the things they set out doing, we're well advanced. Actually, we're doing a lot of stuff ourselves already. So, none of that is a surprise.

So, I think we just have to wait and see where the market study comes out. We like the fact that it's evidence based, it reflects the complexity of the market, and there will be desires to see as there are different market models. (00:17:40) Thinking more generally that could work even better than the current one. And we'll wait and see the outcome of that. Obviously, as long as it's the market that is the level playing field, we'll deploy our assets in that market and see how we do. But it's a considered, thoughtful process and we kind of overall welcome it.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Great. Thank you.

Operator

The next question comes from the line of Andrew Sinclair calling from Bank of America, please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks and morning, everyone. Just a couple left for me. Just on subsidence claims. Firstly, you're saying you don't expect to be materially above normal expectations. I just wonder if you can give us anymore about how you've managed to keep such claims to manageable levels and whether you see any material risk of delayed reporting of such claims.

Secondly, just on the competitive Motor market, how much temporary effect in the quarter that you see from competitors preemptively allowing for things like whiplash reform and then backing that out after the delays I suppose fairly early in Q3? Thanks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Yeah. We don't think subsidence - sorry. We don't think whiplash kind of figured really in it because it was - at the time it was announced it's going to be delayed, it wasn't within the 12-month lead-in period. So - or it's just about the very margins of it. So, we don't think that's a factor.

Substance or subsidence, we've been debating after we announced it (00:19:07) this morning.

A - Penelope Jane James {BIO 15157212 <GO>}

Hi. Yes, Subsidence, I'll pick this up. (00:19:11) Look, we've seen a small uptick in the frequency but not as dramatic as a sort of full event levels. And with a (00:19:25) fair amount we're allowed for normal level of subsidence anyway. So, we think there'll be a small upticks but not material, single-digit million.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Much appreciated. Thanks.

Operator

The next question comes from the line of Greig Paterson calling from KBW. Please go ahead.

Q - Greig Paterson

Good morning.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Hi, Greig.

Q - Greig Paterson

You're all well I hope. I just have three questions. Just catch all the (00:19:55)

A - Paul Robert Geddes {BIO 2474781 <GO>}

Greig, unusually, we can't hear you very well. Could you speak up bit?

Q - Greig Paterson

Can you hear me? So, I wanted to (00:20:03) catch up on the other lines. Could you give us a feel for rate versus inflation in your Commercial book, in your Rescue, and other personal lines book, and in the Home partners book, please?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. To which we go first with? I mean, I think Rescue is kind of a little bit volatile because obviously weather has an impact. So, generally, (00:20:34) as cars are getting more (00:20:34), frequencies going down, but severity is going up because cars are more complex. There's a little bit of the same thing as we see in the carriages (00:20:40) on damage. But generally, we're pleased with the profitability of Rescue and we're particularly pleased with the growth of Rescue, so everything that we've talked about.

I think Commercial, listen, we're extremely focused on pricing, claims inflation. You'll see that in the NIG volumes. So, we are ranked first on the NIG book, and we're happy to take (00:21:04) on volumes for the team because we're - really the objective of that business is to get our target levels of returns. And then, the great news about DL4B is that it's a very profitable book. These are very good products and we're very pleased with that.

So, we're, again, happy with the rating environment in Commercial and we've been - well, in the bits - in the DL4B, we're very happy and then we're very, very rational and value-focused in NIG.

Partners?

A - Penelope Jane James {BIO 15157212 <GO>}

Home, yeah, no, we're (00:21:37) pricing inflation across the whole book including partners.

Q - Greig Paterson

(00:21:43) Thank you.

Operator

The next question comes from the line of Jonny Urwin calling from UBS, please go ahead.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Hi, Jonny.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Morning. Just one left for me. What's the risk that claims inflation breaks out above this 3% to 5% long-term range? And the reason I ask obviously we've seen an uptick in the quarter. But also just thinking a bit more about the Nordic markets and Norway in particular where we've seen just about consistently rising Motor claims inflation mainly due to sort of hybrid and electric cars. But do you think there's a similar risk in the UK?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Jonny, I mean I think as we've long said, probably the risk to the market is claims deflation, right? So, as long as it nudges up, it's potentially a market size increase in (00:22:35) claims inflation is not unexpected and you can price for it. I think we do think, overall, technology, whilst we have some short-term costs, as we talked about, things like damage frequency, it should reduce, and it's a good thing for the world, it should reduce the number of accidents and severe accidents. That's the reason we discount autonomous emergency braking.

So, we do think technology will win through and claims will moderate and, at some stage, start to deflate. I think that's the bigger risk. But the nature of claims is changing within the mix. So, yeah, I mean, as we said before, the more problematic longer-term challenge to the industry is claims deflation albeit if people have fewer accidents, that's obviously a good thing for consumers and we welcome it, and we'll take some adaption. But it makes our life somewhat easier (00:23:28) claims inflation as long as its predictable. And as we said, this is a nudge up. This isn't the kind of unpredictable change, Jonny.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

The next question comes from the line of Dom O'Mahony calling from Exane, please go ahead.

Q - Dominic O'Mahony

Good morning. Just a couple of questions from me if that's all right. Just coming back to the Civil Liability Bill and the whiplash reforms, I appreciate this is quite a difficult question to answer, but would you expect your competitors to start sort of pricing in and getting the claims impact of those reforms ahead of the reforms, i.e. sort of early sometime next year, or would you expect them to wait until April 2020 when the reforms are actually in place and then you can actually see what sort of impact that has on claims experience?

And then just a second question related to the comparethemarket.com decision or preliminary decision yesterday. Clearly, it could be bad news for them, but I wonder whether you think there might be any potential negative impact on the insurers themselves given that these most favored (00:24:36) clauses in the contracts presumably were signed by the insurers? Do you think there's any potential risk that the Competition and Markets Authority looks at the insurers rather than just the PCWs? Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Thanks, Dom. Listen, I mean, as you say rightly the investigation into Compare The Market and I can say we're happy with the interim findings published last week. That's probably all I can and should say on that.

In terms of Civil Liabilities Bill, I think the first thing to say is that we are all, as insurers, committed. And actually, as we've said before, the market behaves exactly in this way, that all the benefits will go to customers. And that's the way the markets behaved and we pledged to government to do that and we will follow that through. And rationally, what that should mean, if it was numerically driven, that would be gradual, as you do renewals it would be a mathematical relationship to how many months we'd be applying in the new regime.

Obviously, that's the limit of what I'm going to say on future pricing because, obviously, how people choose to price is up to them. But as we said before, this is not going to stick to the sides of insurers. Rightly so, this will go to consumers.

Q - Dominic O'Mahony

Thank you.

Operator

The next question comes from the line of Andrew Crean calling from Autonomous, please go ahead.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning, everyone.

A - Penelope Jane James {BIO 15157212 <GO>}

(00:25:58)

Q - Andrew J. Crean {BIO 16513202 <GO>}

Just two questions. Firstly, is the inflation in Motor at 5% a function of the fact that frequency fell rapidly in the third quarter 2017 and therefore there's a base effect?

And secondly, you talk about your midterm ambition to maintain 93%, 95%. Could you flesh that out a bit for us either now or the full year in terms of what you see in terms of PYD because I think you've got that coming down, and how you see that being made up in terms of current year claims and expense ratios?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Thanks, Andrew. So, yeah, listen, let me try and help you on severity versus frequency. So, basically, our 3% to 5% is severity-driven because we have kind of observed frequency being pretty flat. Against that, you have kind of better-than-flat years, which is what 2017 was and you have worse-than-flat years, which is what 2018 looks like it's being driven by too cold and then too hot weather. So, when we say underlying, we're really talking about severity there and then obviously you'll get better and worse depending on frequency. Hope that's clear.

Q - Andrew J. Crean {BIO 16513202 <GO>}

So, you're not talking burn costs. You're actually just talking average claims

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Now, obviously, if long term it looked like frequency is going up or going down, we'd have to reflect that. So, for long term at the moment reads severity.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Penny, on the PY?

A - Penelope Jane James {BIO 15157212 <GO>}

On the PY, I'll take the feedback on the year-end reporting on the current year and the prior, which we've had that conversation, Andrew, heard you (00:27:49). I think the other thing to note is it is also supported by kind of reductions in the expense ratio and the commission ratio. I think, in the short-term, that's driven this year and previous years by commission ratio (00:28:03) but there's a lot of work going on at the moment for the expense ratio reductions. We're investing heavily to get (00:28:10) out at the moment. So, that probably accelerates over time in terms of expense ratio reductions rather than all (00:28:18) coming through upfront. But I will take your point on wishing for more insights as we go.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Very kind. Thanks.

A - Penelope Jane James {BIO 15157212 <GO>}

Thanks, Andrew.

Operator

The next question comes from the line James Shuck calling from Citi, please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Great. I'll get a follow-up question. Thanks very much. I suppose this is partly a request for full year as well, but if you are able to give any insight now, that would be helpful. But obviously, a large part of what you're doing is to drive up the numbers of products that the people own and we haven't really had any update on that since the IPO. Are you able to shed any insight now in terms of the proportion of customers that have a Motor policy that actually own one or more products? That would be helpful to me. And if you're not able to give it now, then certainly something at the full year just showing, hey, you're progressing on that, would be very helpful.

Second question was just around the timing of the succession plans around the CEO and when we might expect an update on that please.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Thanks, James. So, my understanding is the process is on track. You're aware of kind of my year and I'm sure the Board will try and have succession, aware 00:29:46) of both those timings obviously. It's getting the right outcome is more important than a quick one, but the benefit we have is I'm here fully focused hopefully as (00:29:57) today and all over it.

But we've got a good track record. I think of hiring well and managing succession well. So, the Board's on with that. Obviously, it's not a process that I have any particular (00:30:11) but my understanding is it's going to plan, and I'm here for as long as I'm needed through that year and as I speak now fully focused on the business.

In terms of multi-products, we haven't done a particular update. What I'd probably refer you to is as we talked about the new systems, which is on track, built into those is making much easier for us to cross-sell to customers.

So, that's always from those kind of (00:30:40) CRM capability and the multi-product capability things are doing multi-car in different ways. So, we're pretty good at this thing already. We do it by kind of cross-product discounting in a relatively simple way, but we got a much more sophisticated toolset and I think we are excellent marketeers.

So, I think the new tools and that is one of the areas that we think there should be opportunities in the new systems alongside pricing sophistication and alongside self-service. So, that's why we're excited to say that we're on track to bring that in next year or start in rolling out that (00:31:18) next year.

Q - James A. Shuck {BIO 3680082 <GO>}

But nothing you can share at this moment in terms of the base point that's starting into these new systems?

A - Paul Robert Geddes {BIO 2474781 <GO>}

We'll take away the request for disclosure on it. Yeah, we'll add that to our list of things you'd like us to say.

Q - James A. Shuck {BIO 3680082 <GO>}

Wonderful. Thank you very much.

Operator

The final question comes from the line of Greig Paterson calling from KBW, please go ahead.

Q - Greig Paterson

Sorry. Just in terms of the Guidewire, when you said it's coming online next year, I assume you start with new business and then move on to renewals. When do you think the process of moving all new business and renewals will be on the new system? So, what's the end date?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I mean, it's got to be – it will be done in phases, Greig, to do it safely, but we're not going to hang around, but it will take a couple of years to get through all of that. We're obviously going to be making sure that we roll out in a schedule, which maximizes our learning and then maximizes benefit realization.

So, we have a very sophisticated plan and we know exactly how we're going to do it in sub phases and phases. So, we're really into – the exciting part about this becoming real and us have a quite detailed plan about the phasing of it, and I think what we'll probably do is tell you as we do it, Greig.

Q - Greig Paterson

And then before (00:32:45) I mean because we saw Hastings do a sort of point of inflection starting off the amortization of the capitalized software development costs. Are you going to do a sort of immediate start from banks (00:33:00) or you're going to phase in the amortization of the CapEx on the system?

A - Penelope Jane James {BIO 15157212 <GO>}

So, (00:33:10) quite exactly how we're doing it, but we will face it as an outcome of how the value is building and how the rollout is happening is the incentive.

Q - Greig Paterson

It's not going to be a cliff edge. It's going to be a slow phase.

A - Penelope Jane James {BIO 15157212 <GO>}

I'm not a big fan of cliff edges if I can help it, so yeah.

Q - Greig Paterson

It makes you feel alive, cliff edges.

A - Penelope Jane James {BIO 15157212 <GO>}

I'll bear that in mind.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Very good. That's all.

Q - Greig Paterson

There's 00:33:31.

A - Paul Robert Geddes {BIO 2474781 <GO>}

I think (00:33:32). Thank you very much, indeed, Greig.

Operator

We have no further questions in the queue. So, I'd like to hand the call back over to your host for any concluding remarks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Listen, thank you, everybody. Good to speak to you, and we will be in touch. If we don't speak before, have a Merry (00:33:48) Christmas.

Operator

Thank you for joining today's call. You may now disconnect your lines.
