Q1 2021 Sales and Revenue Call

Company Participants

- Neil Manser, Acting Chief Financial Officer
- Penny James, Chief Executive Officer & Executive Director

Other Participants

- Alexander Evans, Analyst
- Andreas van Embden, Analyst
- Ashik Musaddi, Analyst
- Freya Kong, Analyst
- Greig Paterson, Analyst
- Jonathan Denham, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst
- Sachin Lakhani, Analyst
- Thomas Bateman, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to Direct Line Group Q1 Trading Update and now I will hand you over to your host, Penny James to begin.

Penny, please go ahead.

Penny James {BIO 15157212 <GO>}

Thanks Kathy. Good morning everyone and welcome to our first quarter update. Now it's only been I think eight weeks since we presented the full-year results. But Neil and I wanted to take the opportunity to kind of give you an update on how Q1 trading has gone and just as importantly, our operational progress through the first quarter as well. I'm going to leave plenty of time for questions. But first, I just want to run through what I see is the three key messages from Q1.

So firstly, though most markets continue to be impacted by lockdown restrictions in Q1, but there are signs that pricing has stabilized during April, and we are well placed as consumer behavior normalizes. So, with the first quarter in kind of full lockdown claims trends in Q1 were in line with those that we talked about at the full year results with claims frequency reduced as we've seen in previous lockdowns and severity remaining higher than normal.

So, we have seen frequency pick up a little bit in April as lockdown restrictions started to ease, but it still remains well below pre-pandemic levels. Now, while those trends have provided a tailwind earnings, they've also driven more testing market conditions and that's led to an acceleration in market premium deflation in the quarter, as the market took a range of views I think on the trajectory of claims frequency going forward for the rest of the year.

And that's been exacerbated by continued lower risk mix due to fewer new car sales and fewer new drivers entering the market. So, against that backdrop, we've maintained our disciplined underwriting. Against a non-COVID comparative from 2020, we saw a 10% drop in motor gross written premium, which is broadly in line with the markets.

But what we have focused on protecting the quality of the book with average premiums reduced by 5% against Q1 2020, compared with the market reduction of around 8%. So, as we progress through the year and claims frequency increases towards normal levels, we expect the heightened claims severity to put upwards pressure on premiums. It's not surprising, therefore to see in our latest market data that April prices were flat on March, so having protected the quality of our book we remain well placed as the market recovers.

My second message is that we continue to build momentum in areas that are less impacted by the pandemic, with strong growth in both Home and Commercial. In Home, the new business markets remain buoyant and we've delivered growth in own brand policy counts and premiums, driven by strong trading in both direct and PCW channels and the commercial business has had an incredibly strong quarter, delivering over 15% premium growth in both direct and broker channels despite the strong comparative.

In NIG, the 16% GWP growth was across all categories, it's the best first quarter growth in over 10 years, reflecting improved pricing sophistication and it follows on from the excellent customer service maintained throughout the pandemic disruption and within the 16% rate carry was around 6%. Commerical Direct grew premiums by 15%, as tradesman landlord and van under the DL brand all delivered premium growth through a combination of policy count and strong rate carry. While Churchill Business has had a record-breaking quarter across all its products delivering 75% GWP growth year-on-year.

At the full year, we said commercial was the furthest along its transformation journey and as you can see from the numbers, it's yielding great results, which is both exciting when you look across the personal lines, but also reflects the continued focus and investment in the SME segments. Our third message is this. We've continued to make great progress on our transformation to be a data and technology enabled insurer, while building on our existing strengths. The roll out of our new Motor platform is almost complete, we're now live on all brands and all channels with Churchill fully live and Direct Line following fast behind.

I'm really pleased with the latest roll out the Churchill new business, we've completed in just 4 weeks, a clear sign that we're delivering at pace, and this is a crucial step towards delivering the improvements in our trading as well as unlocking of operating efficiencies. It's still early days in terms of the rollout but we're already seeing some of the benefits of the new system come through for Churchill which is incredibly encouraging and testament to the broad transformation agenda.

We've also expanded our own garage repair network with the acquisition of our 22nd auto services repair center, helping us expand our market leading claims capabilities further, and this will become increasingly important as customers start driving again. (inaudible) full-year results for 2021 was a pivotal year in our transformation journey and I'm really delighted with the progress we've already made this year and we're only a third of the way through.

So overall then, how do I feel about Q1 and the business going forward? Well, we've made great progress, our move to system is almost complete and the benefits are starting to come through. Most market prices have recently stabilized and we continue to take share in both Home and Commercial. Today, we've demonstrated that we're building an increasingly competitively advantaged business for future sustainable growth and we reiterate our existing targets.

As lockdown restrictions ease and with our transformation program on track, I feel the business is well positioned heading into the next trading period. Now, I am going to leave it there in terms of comments, but I'll hand back to Kathy to open the line for questions. Thanks Kathy.

Questions And Answers

Operator

Thank you Penny. (Operator Instructions) So first, we have a question from Jonathan Denham from Morgan Stanley. Jonathan, please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thanks very much. Hi Penny, Hi Neil, thanks for taking my questions. Firstly, what's made you confident enough to remove the caveats around the 93 to 95 normalized combined ratio range for this year on the medium term. And secondly, just how do you feel about your expense ratio target given the pressure you're seeing on top line and what are the additional actions you could take on cost if required? Thank you.

A - Penny James {BIO 15157212 <GO>}

Thanks Jon. Why don't I take the first one and Neil can take the second one. Look, we've had a strong quarter earnings wise, we are kind feeling more positive about the overall economic environment and the position the UK is in generally in terms of vaccine rollouts and so on so forth. We're through Brexit as well and that seems to have gone from the most market perspective relatively cleanly. So, a number of factors kind of been around for some time -- are kind of moving backwards if you like. So, as we look at how we started the year, we felt positive about reiterating the 93 to 95 and some of those cautions and uncertainties felt lower down the radars than they were before, hence the fact that we've adjusted the wording very slightly.

So yeah, I think you would add on that on pickup expenses?

A - Neil Manser {BIO 5571223 <GO>}

Yeah great Penny, let me take the question and thanks Jon. So I think as I said at the full year I'm increasingly confident hitting our 20% expense ratio and I don't think anything in Q1 has changed that. In fact, actually we've had some good progress during the first quarter and Penny has mentioned the motor system launch which is faster than expected through this quarter. So that gives us confidence on the --- and that gives us to generate sustainable cost reduction through that process as good.

We've also making progress on the property reorganization. We talked about at the full year and then a huge number of other initiatives going on across the group and as we've said before, we won't stop looking and people going keep on challenging ourselves on the right things to do -- even if it doesn't -- that doesn't kind of market will keep on challenging ourselves. And I think the other thing we're saying is that the -- and obviously, the ratio is a function of both cost and revenue and as you've seen in this set of numbers, where we have made transformational change, you're seeing growth come through as you've seen that in commercial and that gives us confidence for where we're making change in other parts of the group will see the growth, which also support those expense ratio ambitions.

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay. That's very clear. Thank you very much mate.

A - Penny James {BIO 15157212 <GO>}

Thanks John. Kathy. Have we got any other questions on the line?

Operator

Yes. So now we have a question from Freya Kong from Bank of America. Freya, Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi Freya.

Operator

Freya? I believe that maybe Freya lost her line (Operator Instructions)

A - Penny James {BIO 15157212 <GO>}

Why don't we move on Kathy, I'm sure we can come back to Freya, if she comes back in.

Operator

Sure, I can see that Freya has came back already, so Freya please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, can you hear me. Sorry?

A - Penny James {BIO 15157212 <GO>}

Hi, yes we can.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good morning. Two questions please. Could you guys give us some quantitative steer on what sort of frequency benefits that you saw in Q1, would you be tracking ahead of the car 93% to 95% combined ratio target. And secondly just on expenses again, so you guys previously guided to less than GBP700 million in 2021. But last year you said that was at risk, how are you tracking now versus that target? Thanks.

A - Penny James {BIO 15157212 <GO>}

What if I put frequency and then I'll hand off to Neil for expenses. So frequency would be -- as in the previous lockdowns clearly there has been a lot more driving on the roads and that has driven kind of reduced frequency, what we saw is with close last year is in Q2 frequency was down to maybe one-third of what it normally is, maybe broadly and it crept up as we move through the year and then reduced a little as we came into the lockdown, Q4. Down again (Technical difficulty)

Operator

Ladies and gentlemen. So, we currently lost connection with the speaker's line and please wait for a moment and the call will resume shortly. Hi Penny, so you can start to answer the questions.

A - Penny James {BIO 15157212 <GO>}

Thanks Kathy. Apologies, we're having technical issues, but I'm not quite sure at which end. But I think I was halfway through frequency and so broadly what we think, so across last year a big dip in frequency in Q2 and then carried on creeping up all the way through the year is of a little bit in Q4, it never go anywhere near pre-pandemic levels and in Q1 it dropped down again but not as far as it did in Q2 last year but very materially down, so what does that mean -- it means we saw Q1 with kind of positive earnings compared with what we would have expected.

Otherwise, if you like, that we start the year well, I think in terms of whether we beat 93 to 95, there's a lot of the year still to go, clearly the premiums reduction earnings will start flowing through at the back end of the year, but we're feeling very confident the range and we'll see how it traverse through the second half as to whether we beat that within the track. Neil?

A - Neil Manser {BIO 5571223 <GO>}

Yes on cost question, so the GBP700 million target we set back at the Capital Markets Day or 18 months ago. What we've said since then is the COVID did delay or pushed it to the right, some of the initiatives that we have in place at the time made the targets and for the full year. I said that we would expect to be on kind of run rate of GBP700 million by the end of this year. So, if you take that I'd say last year we were 72 it will be at the run rate at the end of this year expecting cost to be somewhere between the GBP700 million to GBP772 million we had last year. That makes sense.

A - Penny James {BIO 15157212 <GO>}

Brilliant. Kathy, we got another question?

Operator

Sure. Now we have a questions from Greig Paterson from KBW. Greig, please go ahead.

A - Penny James {BIO 15157212 <GO>}

Good morning Greig.

Q - Greig Paterson

Good morning everybody how are you dong. Two questions, one is the FCA pricing of view has put headwind on motor right for couple of years now. I was wondering how far we've gone to complete the journey,otherwise will we see right headwind continue for the remaining three quarters this year and interesting will happen, will we see further rate headwind next year. And the second one is you carrying very strong positive rate in commercial. I was wondering if we should expect that to continue for the remaining three quarters of this year. Thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. So PPL, I'm not sure they articulated quite the same as you do. So why don't I do where we are on pricing practices for a second and then reflect what I think is really happening in the motor market because I'm not sure those 2 things are quite linked to a view -- you articulate them at the moment. So supporting proud to say, where are we. I mean, as we said, at year-end. I think we're kind of feeling confident of a preparations what's happened -- well, how do we feel about ourselves. Well, we think, because the combination of our diversified business, model, the actions that we've already taken across the last 3 years also, I mean we were ready, I'm pretty well placed to win in a post pricing practices market.

And we think transformation is all about tailor propositions and market-leading efficiency and pricing is still the last that the right one and having brands with strong service and so I want to roll pretty critical in a sort of a market, the potentially has leveled up shopping and what's happened in PPR, since we lost spoke and a lot of that will not be a huge amount. The FDA put the timing back, which is still, I mean it's tight but it's much more deliverable is a cut of possible to achieve it.

Now, I think whereas before it wasn't -- the issuance, so I still expect the rigs to come out at the end of this month. Am I know from talking to be FCA that really came to hit that deadline. So I think we'll be doing everything within their power to achieve that. But the other thing that's happening is we continue to prepare. So whether it's defining internally how we look at the various value tests, whether it's building the algorithms that I mean we don't like price out of the 2 -- that isn't compliance or whether it's building the various optimization models and some of the at the make the choices as we move through that environment. All of that work, It's going well. Making good progress. So we need to final guidance to know exactly how we will navigate and how we'll choose another dates because there still some pretty material questions out that for instance whether we're not non-cash incentives are allowed, we as well some others are anyway trailing Amazon to Brazil and so forth in the market to see what the responses.

So we prepare the ground. So those option and should they still be in the, at the end legislation, but actually I think if we sit here today, we're confident in our preparations and we await the final rule. Now in terms of whether you can see that in the market all notes in price possibly in Home, you can see a bit of it because I think not a lot of inflation going through in the home markets and certainly for us. Some of that is because we've been making adjustments on the way on conduct pricing which we flagged before.

And we don't know but we suspect there may be others in the market. So I think in that market, you can see it. I think the dynamics are different. And what I sort of step back a little bit Greig, and talk about why, I think we're seeing in the motor market, because I think the pricing practices is actually only a small, a relatively small component to that at the moment.

So you know, what I see going on in Q1 and actually through lots late last year. When you've got reduced claims and clearly an earnings tailwind but it does not reduces the input costs in the market, quite materially, it's putting pressure on top line rates and our approach is ever in that period to look out over the duration of the policy frequency and severity expectations and the price accordingly.

And when we do that, we've ended up with GWP down around 10% pretty much in line with the market that half volume about half average premium due to pricing reductions and mix less new cars on the right, that sort of thing. But compared to a market of around 8% were all 5, so we've given up a bit competitiveness, which you can see in the ISP dropping by 1% to maintain the quality of the book.

Now what's happening -- now well, I think as we said, our consumer intelligence data shows the pricing flattened in April in the market. We're putting some price through clearly some others in the market putting some price through as well, which is good to see. And that's not surprising because of the frequency increases through the rest of the year, which has been the dominant factor I think driving pricing changes over the last sort of 12 months or so as those that frequency picks back up, then the severity inflation that we know is happening underneath but is currently kind of outweighed by what's happening on frequency that severity flight inflation will start to show through. I think more clearly.

And I think what you're seeing in the market Greig is that is kind of a large range of pricing approaches across the market. I think when you read people year end results. You could sort of see and feel that happening and the reality is data-driven market. We will look back at historic data and project forward at the moment, it's very difficult to do that with any certainty. So it's a much more hypothesis let view of what frequency is going to do and I think that sort of those hypotheses probably creating a greater spread on price signals normally do, and as we move through the rest of this year. I'd kind of expect to see people getting more and more data points on what consumer behavior driving behavior is actually doing.

And I think that will narrow the spread about those choices any which way it's frequency level for the kind of start to normalize whether -- whatever that new normal is.That severity inflation will start to show through put upward pressure on rates in it.Now as we've always said, have a claims advantage we've reduced price less than the market. So we feel pretty good about where we're positioned coming into those changes. I'm pretty confident. So I think when I sort of reflect back on your question, I apologize. It's a long-winded answer.

I think Greig the fact is around frequency and severity at the moment of stronger than kind of a positioning in some pricing practices. Just look at the frequency effects site material, I think, whereas in Home, why you're not seeing those kind of the same scale of frequency effects, difficult to know who is pricing for what reason by suspect that may be more -- more sort of pre-PPL planning kind of going on that. Hope that helps and apologize it's a bit long-winded but.

Q - Greig Paterson

So the second question was on commercial, right, whether we should see the strong -- carrying continue for the next three quarters?

A - Penny James {BIO 15157212 <GO>}

Yeah, I mean, look, you know, we love the SME the market, we think it's got real potential for growth and strong margins, and that's why we've been investing in it, and so it's really great to see kind of the results coming through. After all the transformation work on technology and improved pricing tools and the combination of those coming through.

I think -- what do we, what are we seeing I think certainly at the moment as rates move up in the commercial market. There are more opportunities coming around and they have been in recent years. So more business is coming to the brokers, and the brokers are looking at it and looking out across the market. And I think that's giving us suddenly opportunities and I think we are gaining the benefit of having given great service through the pandemic cannot all of our peers have been able to do that. I think, so we're definitely winning something that.

I think in terms of what drives that going forward. Well, I think we'll watch with some interest, how the UK economy emerges from the lockdown from the sort of various government support measures, but I have to say we found the SMEs and our customers will be much more resilient than we could have anticipated coming into this. The team have got lots of ideas. They continue to run at the opportunities. So we still -- we're pretty optimistic whether it runs at 15% we had don't know, but we're pretty optimistic about the growth in that space over the coming periods.

Q - Greig Paterson

Thank you.

A - Penny James {BIO 15157212 <GO>}

Have we got any more questions?

Operator

Sure, so now we have a questions from Thomas Bateman from Berenberg Thomas. Please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning Penny.

A - Penny James {BIO 15157212 <GO>}

Hi.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hope you guys are doing well. And just on commercial lines and could you just talk about how you see the addressable market is, how you think -- how big do you think this business could be on track to meet GBP600 million business possible and just turning to the additional garages that you acquired in Q1, how many more cars does one new garage allow you to service and potentially could you remind us of the cost advantage of service form those vehicles? Thank you.

A - Penny James {BIO 15157212 <GO>}

You're going to test the on what the 3 of our new guarantees because they vary quite a lot is the -- is the honest answer to that, but that varies, with doing something around just under GBP100,000 back over yet. To give you -- what I can tell you is what new is relative to the others which good check after this call. But that should give you a feel.

And on the cost advantage, is there -- if there is a considerable cost of manage between our in-house kind of operations and on the rate suppliers, and we know there is a cost advantage across market because there are various benchmarking tool across the market available. So we don't give out what that number is because it's commercially sensitive. But there is definitely a margin that we can see so that's kind of I guess just to give you some color around that.

Why do you get the balance sheet coming out, there's lots of things that you can do, you and me and so we can decide at the point of cool whether we write-off. We've got technology that runs between the repair centers on the claims function of the sort of point of notification that lets us assess the damage at that point that you can use tools in AI and order parts from that. So that when it arrives Colorado carriage of the parts already in ready to go and that reduces the repair time. And so once I told. You can -- we can also invest in sort of technology understanding cost technology and those repair centers, so we could meet Technology Center opening in for this year geared at understanding how to repair and recalibrate technology understand the EV technology, look at how to kind of advance pain turbines and pain techniques, so that you can contribute towards the Net Zero targets in terms of repairing cost, all sorts of things.

All of those things other to being really professional operation and being more cost advantage more effective as there's definitely a benefit and I think is -- you know if that, if you like or becomes more important volumes in the market start to increase again. So with that I'll leave it there on car repair centers it's helped the commercial how big -- look, I mean you know the commercial market is huge. We're significant player at the very small end of the market already. And that's where we like to play. So we've talked about the possibility of moving slightly up the scale chain to expand the scale of that market, if you like opportunity for us. Perhaps sharing that risk with others on routes, if you like. And we're certainly looking at that, but it still feels to us is there is a significant SME market out there in our heartlands that we are getting very strong a targeting have a really strong operation and we think there is plenty to go for. So I'll leave it there, going to put a pound sign on the market side.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thank you

A - Penny James {BIO 15157212 <GO>}

Brilliant thanks. Kathy, anyone else on the line?

Operator

Sure,. Now we have a question from Ming Zhu from Panmure Gordon. Ming, please go ahead.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi. Good morning. Just two questions from me please. And I could you just maybe some color in terms of your Motor premium is that from an electric vehicles and how have you seen that market changing and what have you found through -- preparing for further growth? And my second question, your buyback so far you've just over GBP30 million and the looks like it hasn't been both effective to your share price. I mean, would you consider at the second set, at your half-year results for the second 50 million tranche, would you probably consider for the year?

A - Penny James {BIO 15157212 <GO>}

Thanks. Let me do comment on EPS. And then I'll let Neil comment on buybacks and so forth and so we think we're still a relatively small, small part of the market and the number only. But it's still a relatively small part. We know we are slightly heavier than other players in the market. We've had a strong relationship with Tesla, from the get-go and so we know that well on we kind of run slightly ahead of the market on EVs but I think more interesting is how you position for us as that market, that market is clearly growing grow pretty rapidly from here.

And why we kind of punch slightly have any -- we do along we've been trying to learn ahead of any flip -- heavy flip towards EVs. One of the reasons we've opened, you know, technology center in garages is to enable us to train our engineers and our engineers suppliers and those human vehicles more broadly on the new technologies, because actually the repair cost profile is different, you get a lot of additional you're increasing using that cause.

All of those things affect repair costs and times and we took the view that wasn't the expertise in the market and not -- so we need to build that in-house, which is what we have done to prepare the way for that. So that's really how we're viewing kind of that overall I think and also doing a bit try and work, how we can help that transition work successfully across the UK, not just as an insurer -- an insurer of those vehicles, but as a sort of corporate in the space. So we work with a number of other companies to try and see if we can find a way to make that transition smooth so we stay close to it. It clearly has a slightly different risk profile that we're getting used to. But, yeah, that's where the future lies.

A - Neil Manser {BIO 5571223 <GO>}

On the buyback, yes, you're right, we're about GBP30 million through the first GBP50 million tranche buyback like you still think is the right way to go and in fact, I'd say we're getting a better return assessment today on the shares. They were installed buyback. So, I think is the right thing to continue.

Q - Ming Zhu {BIO 17001429 <GO>}

Thanks. Kathy?

Operator

Now, we have a question from Oliver Steel from Deutsche Bank. Oliver, please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi Oliver.

Operator

Oliver. Your line is open, please recheck If you put yourself on mute.

Q - Oliver Steel {BIO 6068696 <GO>}

Sorry about that. Can you hear me now?

A - Penny James {BIO 15157212 <GO>}

We can hear you, we have a technical issue this morning (Technical Difficulty)

Q - Oliver Steel {BIO 6068696 <GO>}

Right. So first question is the various pricing, so they show. I mean the ABI I think minus 8% year-on-year, but the ones that are more orientated towards new business pricing seem to be off sort of 10% up to 14%, is that something you recognize that the pricing gap between new and renewal pricing has actually widened over the last 12 months, despite the FCA new guide?

Well, the new rules that they're are looking to introduce. And then the second question is, I'm thinking about the transformation program on Churchill and Direct Line, how should we be thinking about what we should watch how what which sorry, let me start again what should we be looking for precisely in terms of the benefits of that coming through in the motor accounted Churchill and Direct Line over the remainder of the year?

A - Penny James {BIO 15157212 <GO>}

Okay. So market statistics. So, yes, I think some of the PCW market statistics suggesting kind of 14% or something like that. And I think there's probably two things going on in there Oliver. One is, yeah, the new business markets being testing, if you like. So I will take the heat then the renewals market, I think you can, you can certainly see some of that happening, I think all of feel some of that happening, and that's why we lost a bit competitiveness and that's why I kind have come off a little bit because we've drawn draw a line in a slightly different place to some others it looks as though.

I think the other thing you have to watch though about those statistics is there is a mix factor in them isn't stripped out. So when you losing kind of new costs from the market in particular young drivers from the market because they can't come into the market. Whilst that has a pretty muted effect on the overall book when you include renewals and so on the ABI, that has a more marked effect on new business on the new business market in relative terms. So I expect those some recognize the 14th and 15th and so on so forth, absolutely. But I think you should be a bit wary of believing that the automatic price coming out on a risk-adjusted basis, if you like. I think that number is new, the ABI sort of space. So that's about 1 and then in terms of transformation.

Yeah, the benefits come through in layers at different times what I mean by that. So those of you who made the trip to Doncaster you may remember, just talking about the transformation and what it delivers in terms of pricing benefits and how it works and one of the things we talked about there is the fact that on our own models you had kind of your pricing model and then you had to translate it almost twice to get it actually into the market and deployed, and then those translations lost a little granularity that was intended from the original model. So just by switching on new business that benefit starts to come through and so, if you like, the intention of your original pricing tool is deployed much more accurately into the market. So, let's benefit one I think then there are other benefits that come through in pricing which can come through our available to you relatively immediately. So what do I mean by that?

You're able to bring in new sets of pricing data that we were more restricted on the full you can effect pricing changes faster in the market, then we could have done before, you can bring product, new product tweaks and changes and enhancements on more straightforwardly faster and more cost effectively than before. So there are a number of things that as things evolve that enables us to maneuver faster if you like, and that may well be important as we come into pricing practices where nobody will know on day one, exactly where the market is going to land. So actually big flexible the maneuverable. It's going to be a pretty key thing and then you will see, then on top of that, you've got what it could be operating efficiencies and in that space, you get some benefit straight away as the book builds up the calls, even run cost the garages and those sorts of things.

But actually the big benefit through around headcount reduction, the call if you don't have to do as much activity and selling it sort of operational stuff behind the scenes and those costs effectively reflected in the 2 sites, adjustments we closures or reductions that we talked about at the year-end result, year ago. So reducing in Manchester and closing the IP switch and effectively 700 roles, we talked about that the effective of the new platform rolling through largely and that kind of builds up as the volume of policies build up every year.

So you should start to watch for those kinds of expense benefits and you should watch for either strengthening loss ratio in current year loss ratio improvements all depending on where the market cycle is you might -- we might deploy that integrated in terms of the -- basically should see that.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you very much.

A - Penny James {BIO 15157212 <GO>}

Was that helpful? Brilliant.

Q - Oliver Steel {BIO 6068696 <GO>}

Yeah, very helpful

A - Penny James {BIO 15157212 <GO>}

Happy. Kathy, any more questions?

Operator

Yes, we have a question from Sachin Lakhani from HSBC. Sachin, please go ahead.

Q - Sachin Lakhani {BIO 17270003 <GO>}

Hi, good morning all.

A - Penny James {BIO 15157212 <GO>}

Hi. Good morning.

Q - Sachin Lakhani {BIO 17270003 <GO>}

Good morning. I had a question on time. It looks that last year, you lost a little bit of policy count and the premium growth, a bit the high market, it doesn't seem to the case anymore, are you done with the sort of fine-tuning prior to the FCA pricing review in Home and then my second question just goes back to the merchant pricing environment, last year, pretty stellar result throughout the industry this year will probably still be a pretty good results. It appears that some companies are the prudent reserves, why is there a case that maybe the market will be softer, given the fact that, and then maybe with a bit of over-earning of the past 18 months, getting them? Thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. And so I think the -- well, over the year end we were sort of saying, we keep increasing sort of guarantee less, so broadly because the average premiums stopping is a lot of the growth is coming from a price comparison site and from memory from redirect was pretty flat.

At that point. So what's been happening over the last quarter, while new business sales on own brand dropped about 14% retentions up as well. The market is pretty points and you can see that in the news that how sales and so on and so forth. So the home market remains pretty buoyant April. So April kind of premiums up 3.6%, I think cost piece, around 5 year on year. So you're seeing growth, if you're seeing quite strong growth in direct but stronger still growth in price comparison site business.

So what's going in well, sure, we're being kind of competitive on price, we're marketing pretty hard as well, we, we've had some good deals running I think that with some of the price comparison. So it's kind of running on all cylinders, if you like. You've seen average premium coming off by around 3.5% I think and some of that is kind of pricing actions.

So there's still, we still continue to have some pricing actions in the market to be competitive, but also a little bit of stuff going on around what we call our contract pricing which is as we've always said we keep tightening the tails and tightening the process continues, and will continue, all the way through the year. But probably the biggest effect and the average premium is the channel mix effect, which has been kind of happening for a couple of years now.

So I think when you look across the market. I think the market's probably not putting a lot of pricing inflation through at the moment. And my guess is, there's a bit of a mixture there is some lower input costs. So claims have been down through the various lockdowns and so people maybe anticipating that continuing for a while with home working continuing to many and so on so forth. So you may be seeing some of that you may be seeing a little bit of positioning difficult to tell what you know what choices, people are making and for us, you're seeing a bit of channel mix as well going on. So, that's a little bit of I think in the home market.

Q - Sachin Lakhani {BIO 17270003 <GO>}

Sorry, I just on your own brand growth you say a bit more competitive now at the end of the year. What does that do to your back, but then if you're being a bit more capacity on the new business?

A - Penny James {BIO 15157212 <GO>}

But I think it's too, bit in the sort of back book story. Well 3 if you include partner brands in there, but two main business, one is what's happening in the tails and we said for some time now. But we've been at the 5-year 10-year checking every policy that we're comfortable that the margins that we're writing where appropriate, we're happy with those and so we've been kind of happy with our position for some time and that will be overall value offering in the product and that tailed kind of still we tightened, but for us we feel is pretty much there.

Obviously it will be FCA pricing review does, it's more than that, though, it says any pricing step ups basically through that period that our risk-based needs to come out. So we still got a leveling up process to do over the first handful of years, I think it's very little, have advantage and people running into that flat if you like. So I'd be surprised if you see a huge amount of that happening in the market. I think you can see the old product out there, where people are starting to put product out that does that. And so I think you'll see on day one of pricing practices. I would be surprised if there wasn't, still a leveling process that has to happen across the market on those early years people may be in different places on the journey that on what I would call the tails in the out years. Okay. And the second question has completely escaped me now I'm sorry about that. Can you remind me?

Q - Sachin Lakhani {BIO 17270003 <GO>}

Okay. And yes, is on the most pricing environment, they're sort of people has ground in the last 18 months and reserves sort of quite region as well. It does not just soft in the size, the longer this summer?

A - Penny James {BIO 15157212 <GO>}

I think this is all about. I really think this is all about and who costs really driven by input costs. So, the materiality of the shift of frequency is outweigh kind of pretty much anything else if you like in terms of scale and I think the -- I personally think the key indicator is where people will be assuming that freight, -- that motor frequency ends up and so we are certainly looking closely at outwards but the behavior of our driver, our customers are doing, but also some of the indicators around what the economy will doing. How much work from home people will be doing, what whether it's likely to be a staycation or European holiday year all of those things I think as a dominant -- it's certainly, I was thinking we don't -- when we look at pricing look back at how much money we made in Motor in months that's what we can reinvest in price. It's just not how we think about it. We look forward of what we think the input cost on the policy we'll pay what margins we need to make. And how competitive the market is in that context, and that's how we make our price includes can't speak for the decisions other make, but I still believe that the biggest single implements here.I t's what's going on in claims costs today and over the forthcoming year.

Q - Sachin Lakhani {BIO 17270003 <GO>}

Thank you very much. Cheers for the detail. Thank you.

A - Penny James {BIO 15157212 <GO>}

Thanks. Kathy, next question?

Operator

Sure. So now we have a question from Alexander Evans from Credit Suisse. Alexander. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi good morning. Hi Neil. Good morning. Just first one maybe just on the sort of risk mix angle that you talked about for -- is it possible to give a stare on how much is related to sort of the closing of the economy. None of these new drivers relative to how much of that changes, is it related to what's being pass through on frequency. And then secondly, if I just look on quarter-on-quarter, it looks like your Motor Gross written premium is actually up 1% versus what we're seeing in the market with various indices saying sort of down 6% or even 15%. So is it possible just to give a little bit of an explanation of this, and if you're seeing sort of improvement there quarter-on-quarter?

A - Penny James {BIO 15157212 <GO>}

I'm just puzzling on the last question. Let's do the first one, because I think could follow that one. And it comes all kind of what's going on GWP and so we got a 1% fall about half of that is volume, about half of that is average premium and very broadly it's split slightly to put -- but very broadly, I'd go about half of that probably risk mix and that's kind of pure pricing effects, you'll be within 0.5%, either way, I suspect if you do that, but that's the kind of shape. Neil, because you followed the numbers better than I did on the second part of the question?

A - Neil Manser {BIO 5571223 <GO>}

Yes, I think if you're comparing Q1 most the Q4 Motor premium and you're right, is up slightly on Q4. I wouldn't overread too much because Q4, it tends to be a slightly lower quarter at market premium at the market level then the other quarters.

Q - Alexander Evans {BIO 19956412 <GO>}

Okay, thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. Thanks, Kathy?

Operator

Now, we have a question from Ashik Musaddi from JPMorgan. Ash, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you. Good morning, Penny, Good morning, Neil. Just one question I have actually. I mean, you mentioned on the FCA review that there is not much happening on the motor side at the moment. Whereas it feels like people have started adjusting on the home side, I mean what are you doing at the moment. I mean, how much have you adjusted either your pricing or your expectations around FCA what would be your base case expectation where we are going towards would be some good, a good reminder for us. Thank you.

A - Penny James {BIO 15157212 <GO>}

Look, I mean, I think in motor I've been clear also could is on a frequency severity and so once they just to remind that we don't yet know what the PPR will roll off. So we don't actually know how to trade that through the market because we didn't know what the lines. You know that the FDA wants us to check, so we can do some directional stuff which and remember the kind of biggest issue area from the FCA review is home. So it's home and motor included in. But in terms of the historic back books and some of them because of the stickiness of accounts, home is the area that kind of with the Motor issues.

And so, when I say we've been public, all the way all about what we are doing in the home, but to make sure that we are dealing with the tails of that we continue to do so. I can't tell you I don't have much insight as to what other people are doing in the market and how they construct their prices. But all I would say is that doesn't look to be a lots of inflation going through the Home book at the moment on that maybe people adjusting pricing, it may be, it may be simply that there were less a few less claims coming through. So I don't know if the company or others are doing. I can't speak for others are doing directly and why they're making the pricing choices, they are.

So yes, clear what we've done on Home and we continue to take that path. We think in the long run, the book will be stickier post PPR. So we see little downside in the market at the moment about being competitive ahead of that as long as our long-term tails moving in the right direction, and that's the way we're thinking about it, motor just focused at other things at that moment.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sure. Thank you.

A - Penny James {BIO 15157212 <GO>}

Thanks. Kathy?

Operator

Thank you. So now we have your final question is from Andreas van Embden from Peel Hunt, Andreas, please go ahead.

A - Penny James {BIO 15157212 <GO>}

Good morning. Good morning.

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

Good morning. Just a quick question around the rebates, you've been providing in the motor market since the second quarter of last year. Could you maybe highlight your plans of unwinding these rebates is this one on one with mileage driven or is there something else, I need to think about and how sticky do you think these rebates will be in the remaining in the remainder of the year. Thank you.

A - Penny James {BIO 15157212 <GO>}

Yeah. We've offered what have we done it. So over the course of the middle of last year, coming to the exact date actually we offered. Pretty much all our customers a rebate we gave all those numbers are a kind of a year-end, but what have we done as we've come into this year. We have done 2 things, one is we've made it permanently possible for DL customers to flex that mileage through sort of mileage proposition.

And so we see that as part of the DIRECT strategy, if you like I talked before about tailoring product individuals. Some of that is having components, a product like we do in garages where you can tailor around someone's business, some of that is increasing creating what sort of more modular product to the personal line space. But actually people being able to tailor their own motor policy around the rebates. We consider that something that is entirely appropriate and consistent with the brands, so that a kind of permanent offering maybe 10% 15% of the book is taken that up, something like that.

We've also offered because of the lockdown and because of the fact that the then they don't have that kind of proposition. We've also offered some of our Churchill customers and PCW customers refund opportunities if you like of the opportunity. So take refund I think it's appropriate through the lockdown and this was something like GBP1.6 million has been refunded on that.

As a result, and around I think 300,000 is going to charity, we give the charity option as well when we do that. So that's sort of the scale of the refunds overall, I think.

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

Alright, thank you very much

A - Penny James {BIO 15157212 <GO>}

Kathy, is that the last question?

Operator

Yes. So, we currently have no further questions, and please -- Penny please conclude today's call.

A - Penny James {BIO 15157212 <GO>}

Brilliant. In which case, I'd say thank you to everybody for your time and look forward to seeing you all soon.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining and you may now disconnect your lines.