Q2 2014 Earnings Call

Company Participants

- Anthony Jonathan Reizenstein, Chief Financial Officer & Executive Director
- Paul Robert Geddes, Chief Executive Officer & Executive Director

Other Participants

- Andreas E. Van Embden, Analyst
- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Dhruv Gahlaut, Analyst
- Gordon Aitken, Analyst
- Greig N. Paterson, Analyst
- Oliver G. Steel, Analyst
- Ravi Tanna, Analyst
- Sami Taipalus, Analyst
- Thomas M. Dorner, Analyst
- William Hardcastle, Analyst

MANAGEMENT DISCUSSION SECTION

Paul Robert Geddes {BIO 2474781 <GO>}

Okay. We will – we'll make a start. Thank you very much. So good morning, everyone. Welcome to our First Half Results Presentation, to everyone in the room and to lots of people we have on the phone. You're all very welcome.

I'm Paul Geddes, CEO, joined, as always, by John Reizenstein, our CFO, and several key members of the executive team, including a new arrival, Mike Holliday-Williams. He joins us running our Personal Lines business, formerly, of course, running the Scandinavian businesses of RSA. So, Mike, very welcome. And I'm sure you'll have a chance to chat with him if you haven't already afterwards over a cup of coffee.

So normal format today. I'm going to run through the key messages, hand over to John on the numbers, and I'm going to come back on strategy and, of course, our observations on the U.K. Motor and Home markets.

So let's turn to highlights on slide four. First half of 2014 has been another period of good performance, and we're on track to meet our 2014 targets. Despite the weather, our COR of 96.6% is within the guidance for the year of 95.7%, and we are also on track to achieve our £1 billion cost target. Our annualized RoTE of 15.8% is ahead of our 15% target.

We have remained disciplined in the highly competitive Motor and Home markets, maintaining our focus on rising business where we see value. This approach together with the work we've done in pricing and claims helped us report a current year attritional loss ratio 2 points lower than the first half of 2013.

Whilst our value over volume approach is leading to a reduction in GWP for Motor and Home, our Commercial business continued to grow GWP and IFPs and it's done this whilst improving efficiency and delivering improvements to its customer propositions.

Commercial remains on track to deliver a sub-100 COR this year, with the normal caveats around weather and large losses. Furthermore, Green Flag, our Rescue business, had a good first half, increasing premiums by over 5% and increasing profit by 19% year-on-year.

Taking all of this together with the improvements we've made to the business for the past few years, we are able to announce a regular dividend of £0.044, representing a growth of 5%, and a special of £0.10. This is in line with our policy to raise the regular dividend annually in real terms and to return capital where it is excess.

Finally, in the first half, we initiated a strategic review of our International businesses. As I'm sure you've read, we are in discussions around a potential disposal. And I'll come back on this a bit more later. So, all in all, another half year (02:43) good progress on our strategic initiatives.

But with more detail, I'll hand over to John.

Anthony Jonathan Reizenstein

Thanks, Paul, and good morning, everyone. Let's turn to the financial highlights on slide six, and I'd say a decent set of results to talk about today. As Paul said, the U.K. Motor and Home markets have remained competitive in the first half. This reflected the lower GWP and IFP, although that was partially offset by growth in Commercial and Rescue.

Headline underwriting profit was down due to the weather. But if you skip that out, underlying performance has improved, which can be seen in the reduction of the current year attritional loss ratio. This is a result of our disciplined approach in competitive markets. Together with the actions we've taken across the business, but particularly in pricing and claims.

Investment return is a bright spot following the actions we've taken to improve yields. Investment return for the first half is up 19%, with higher income yields and higher gains primarily from capital growth on our profit portfolio. That brings to ongoing operating profit of £249 million which is £38 million lower than last year but remember this includes £64 million of home weather and £16 million of commercial weather in the first half.

Despite the weather, the COR was 96.6% which was within the expected to range for 2014 which we set at the beginning of the year. On the segmental basis, Motor, Rescue and other product lines, and Commercial, despite the weather, all grew operating profit in the first half versus the same period last year. International was broadly flat while Home was impacted by the weather events in the first quarter and I'll come onto that in the segmental update.

Turning to GWP and IFPs and starting with IFPs on the left hand side, overall it's down about 4% in the first half. At segmental level, the first thing you'll notice is the large reduction in Other Personal Lines. This is due to technical change in the travel policies in packaged bank accounts and is not material to our performance.

With separated Rescue, which on the same, grew IFPs by 2.3% in the first half. Motor was down 1.9% in the first half; reduction of 0.7% in the second quarter was a bit lower than the 1.2% drop in the first quarter. In Home, IFPs were down 3.4% in the first half as the home market has become increasingly competitive.

Commercial continues to grow IFPs, up another 2.9% in the first half with steady growth in both quarters. International grew 3.8% in the first half due to strong German year-end business. And moving to GWP on the right, GWP of £1.875 billion in the first half was down 5.1% versus the first half of last year.

U.K. Motor and Home GWP were down 9% and 5% respectively in the first half of the year. Note that in the second quarter, reduction in motor was less marked, and Paul will tell you more about that later. The reduction in Rescue and other personal lines was skewed by the sale of the Life business. On a like-for-like basis, GWP was up by 2% in the first half.

Commercial grew GWP by 4.6% in the first half of growth accelerating slightly in the second quarter. International was down 3.4% in first half, mainly due to exchange rate movements. The underlying line trend in local currency was broadly flat as growth of Germany was more than offset by traveling conditions in Italy.

If you go onto slide eight, you look at the current year attritional loss ratio. Starting with the blue column, there was a two percentage point improvement in the current year attrition loss ratio, reducing from 73.8% in the first of half of 2013 to 71.8% this year. This reflects recognition of progress on pricing as well as claims initiative and a disciplined approach in competitive markets.

First half major weather in Home was £64 million in the first quarter this year, added 3.8 percentage points to the overall loss ratio compared with nothing last year. Prior year releases of £218 million or 13 percentage points in the first half were lower than the prior year. We have released across all segments since we continue to recognize benefits from our claims transformation and pricing initiatives, which brings us back to the overall reported loss ratio of 62.6% in the first half versus 60.3% for the prior year. Note that no adjustments we made in respect to commercial weather, which was £16 million for the first half of this year and that's included in the attritional loss ratio.

Turning to expenses on slide nine, as Paul said, we continue to make progress on our cost saving initiatives in this period. We took the cost down 5.4% to £496 million. Against the backdrop of lower premiums, we were able to reduce the ongoing expense ratio by 0.5 percentage point to 22.5%. We are below the £500 million mark for the first half and remain on track to achieve the £1 billion target for 2014.

As the chart on the right shows, we made consistent progress on costs over the last two and half years. And Paul will talk about how we see that going forward.

To talk about the segments, starting with Motor, the good half year for Motor, with another increase in underwriting profit. As I mentioned earlier, IFPs and GWPs both down versus the prior year, albeit with slightly slower rate of reduction in the second quarter. The current year attrition loss ratio is broadly stable versus prior year, at around 87%, good results in the competitive markets and underlying our focus on the value.

Prior year releases were in line with last year at £149 million, as we continue to experience positive run-off across bodily injury but also damage claims. We remain prudent in our reserving assumptions. Underwriting profit at £42.4 million was £11 million higher than prior year and COR improved by 2.2 percentage points to 93.6%.

Instalment and other income was down 25% due to the impact of lower volumes on instalment income, the banning of solicitors' referral fees and the sale of Tracker. After taking to our higher investment returns, operating profit was £164 million, 4.6% higher than the same period last year.

Going on to Motor claims, as I said, Motor recognized £149 million of prior year reserve releases in the first half, which is evidenced of our continued prudent approach to reserving. The booked loss ratio chart at the top shows the favorable development in recent accident years as you have seen in previous presentations. As with prior years, there is an element of conservatism in our initial pick for 2014. Again, based on past experience I would expect 2014 to develop favorably.

The updated BI capped severity position on the bottom left shows the difference between inflation observed on the ground versus what we booked. As you can see, we continue to take a more conservative view of deflation trends in our reserve versus loss settled. And LASPO has not yet been given full credit in the reserve data for 2013 versus 2012.

The indexed figures in the bottom of that past table show the cumulative effect of the pattern of conservatism. Obviously, we need to remember that this is only one peril, albeit an important one and actually in the first half we also had releases from damaged perils.

In terms of current frequency, there has been no meaningful change to overall Motor trends in the first half of the year. The BI capped frequency improvements we saw in 2013 post LASPO appears to be slowing. Although overall frequency is still below pre-LASPO levels and our performance continues to be better than the industry.

We saw a slight uptick in accidental damage claims in the first half, we believe this is linked to weather events in the first quarter. We remain watchful on macro trends and continue to monitor the effects of driver miles and economic recovery on claims trends. And I'd say on severity it's quite early in the year and that we have nothing significant to add on that.

As we said a number of times but just to remind you again, we take a contemporary view of all this data and trends in pricing rather than the more backward looking reserving view which is more conservative.

Turning to Home on slide 12, the Home result was impacted by higher weather costs, although the underlying performance was good. GWP and IFPs were down as a result of the competitive market where we continue to see premium deflation and where banking partners adjust the distribution model and customer journeys.

We are pleased with the current year attrition loss ratio which after adjusting for the weather is better than the first half of last year and that's a good result. Prior year releases in Home of £33 million in the first half came from a range of perils and accident years, again evidence of conservatism in our reserving.

The reduction in the commission ratio is largely due to weather impact where we share cost of that with our partners, being offset by some one-off adjustments to profit shares. Operating profit of £34.8 million, is down £52 million, that's half of the £64 million of weather trends.

And moving on to Rescue and other personal lines, I'll start with Catastrophe as a whole and then maybe move on to Rescue itself which is the bulk of the profit of this division. So overall, Rescue and other personal lines, GWPs and IFPs were down against the previous year. If you exclude the Life business, which was sold last year, GWP was up 2%. The COR of 90.9% is 1.3 percentage points better than last year. Operating profit of £25.8 million is £3.9 million or 18% higher than the first half of last year, despite of sale of Life which contributed £3.4 million in the first half of last year.

Within this result in this half year we've seen high profits in Travel due to one-off reserve releases.

Moving on to Rescue. Rescue had a very good first half. GWP of £77 million was up 4% versus the prior year. That follows our successful new marketing campaign and improvements to our website which has driven high levels of cover.

First half COR of 78.2% is 3.3 percentage points better than last year, mainly as a result of favorable claims experience. This brings us to operating profit of £22.5 million tracking extremely better than the first half of 2013.

Moving on to Commercial, good start for the year to Commercial, which continues to grow topline and improve efficiency. GWP grew to 4.6% with results of growth in all three areas of commercial, eTrading, Direct lines of business, and Regional Broker. The strongest growth was in eTrading and in Direct lines of business which is excluding the Van business and those two parts of commercial grew by about 13% year-on-year in those channels.

So that's a good result across production channels, offsets the pressure in Commercial Van, where we see similar trends to the U.K. personal lines Motor market. Commercial overall improved the current year loss ratio by 1.4 percentage points to 1.6 percentage points as a result of improved risk selection and rating actions public product.

The COR of 104.6% is better than the prior year despite additional weather cost in H1 and expense and commission ratios also show improvement. If you normalize for the weather and large claims, the COR would have been around 101%.

Operating profit £10.8 million was 3.8 million higher in the same period last year despite lower levels of PY releases and higher weather cost. Overall it's been a good half for Commercial which as Paul said remains on track to achieve a sub 100% COR this year assuming a normal level of weather and large losses.

Move on to International, a broadly stable result for International in the first half. IFPs were up 3.8% since the year end which includes growth from the 1st of January German renewal season. As I said earlier, GWP was broadly flat in local currency terms.

The COR of 101.3% is 1.4 percentage points higher than last year mainly to lower prior year releases and high commission on partnership business. The improvement in expense ratio needs to be looked at in conjunction with commission ratio. Taking the two together the trend's been broadly flat.

We've seen a significant improvement in the current year attritional loss ratio and much of this is due to reduction claims frequency in Italy. Operating profit of £13.4 million is slightly below last year although in euro terms it's pretty much flat.

That's all for this segment. I'm going to move onto to investment. We are pleased with the progress that we are making on investments. The actions we've taken to diversify the portfolio and mitigate yield pressures continue to deliver higher returns. Investment results in the first half was £116.5 million, up 19% on the same period last year, and gives us investment return of 2.8%. We made further purchases of property in the first half of the year bringing the allocation to 3% closer to our 5% target and we also increased the weighting for securitized credit.

Income yield in the first half was 2.3% versus 2.1% last year – for the same period last year – we actually increased allocation to property, securitized credit and BBB corporate debt securities. AUM at the end of June was £8.2 billion, 4% lower than December. We saw higher investment gains in the first half of £23 million, most of which was due to capital growth in our property portfolio.

If you turnover, we can look at the yield outlook and where that – we think that's going. The chart on the right hand side shows an improving outlook. We continue to implement our investment strategy. We recently approved a couple of new assets classes, named infrastructure debt and short-dated high yield with allocations of 6% and 4% respectively which we will look to implement in the second half of the year. Taking into account the movements in the full yield curve, ameliorating actions including achieving our 5% weighting in property we should deliver a yield of 2.5% by the end of 2015.

Just look over to the bottom half of the P&L on page – slide 18. The Run-off segment reported a profit £20.4 million in the first half as a result continued favorable prior year releases. Restructuring and other one-off cost of £28 million, a £42 million loan in the first half of last year which included very significant costs related for separation from RBS and up-front costs associated with our cost savings program.

We aim to substantially complete our IT migration program by the end of this year, albeit some may move into Q1. And we reiterate our guidance of £80 million of total restructuring costs in 2014.

We made £2.3 million disposals gains from the sale of Tracker. The effective tax rate for the first half was 22% close to the U.K. standard tax rate. This brings us down to a reported EPS of £0.117, that's 15.8% up on the same period last year, as a result of lower restructuring costs and a higher contribution from Run-off. Adjusted EPS which is based on ongoing profit net of tax was slightly down due to higher weather costs in the first half.

If you look to at the balance sheet and TNAV, the table on the right shows TNAV and TNAV post NAV and TNAV per share were broadly flat year-on-year – I'm sorry – since the year-end, broadly flat since the year-end. Including dividends paid in the first half underlying TNAV increased by 8.4% mainly as a result of profit in the period. It's also worth noting, we've got a £20 million increase in unrealized gains net of tax as credit spreads on bonds have tightened. The assets currently stand at £79 million net of tax.

Then moving on to our capital positions. This is the slide I shared with you in February which shows the headwinds, tailwinds, and uncertainties which we take into account when deciding how much capital we need to hold. The main update is that we completed the ICAS+ process with the regulator in the first half and the outcome of that has had little impact on our overall capital position. However, the other capital headwinds, tailwinds, and uncertainties are still there. We continue to move towards a Solvency II environment, we're still operating in competitive markets while investing in the business and our investment strategy includes new asset classes which will in turn require some additional capital.

Overall, we feel still feel it's appropriate to hold capital at the top end of our range, as you can see on the next slide. So yes, our capital position remains strong with risk based capital ratio of 148.8% versus requirements, broadly similar to where we were at the year-end. These numbers are post the regular dividend of 4.4p per share, which is a 5% increase and also the 10p special dividend announced today. Usually, I'd say people in this room and on the phone are ahead of us on most of the things we do but just for once, we thought it would nice to get ahead of you on one thing.

And finally, just to say that leverage remains low at 16.1%. Before I pass it back to Paul, I'd like to clarify by looking at the key financial metrics over the last few years, so we can put the first half performance into context. Over this period, we improved the current year attritional loss ratio, consistently reduced expenses and managed to turn the tide on investment income yield. And we've not only grown the regular dividend but also declared special dividends totaling £270 million.

And with that, I will hand over to Paul.

Paul Robert Geddes {BIO 2474781 <GO>}

Thank you, John. So I'm going to start with an update on our strategic priorities and targets on your page 24. Hopefully, a refreshingly familiar slide, which acts as a reminder of our five strategic priorities, which we've been focused on for a while. These, in turn, underpin the targets we've set out on the right hand side of the chart. Initially, I'm going to talk to you through the next slide, each fitting with those five clear priorities. Starting on slide 25, this summarizes our 2014 strategic initiatives which I told about at the full year. Against the backdrop of a highly competitive market, we need to keep up momentum of our self-help agenda, if we're to maintain and improve our performance and that is exactly what we are doing.

Over the next few slides, I'm going to give you an update on Telematics, Digital, costs and Commercial. But before I do, let me give you a brief update on two extremely important levers for us; pricing and claims.

On pricing, we said we do about 30 pricing projects this year and we are largely half way through delivering these initiatives, which cover both Motor and Home. These projects spanned technical pricing, margin pricing, and initiatives to reduce application fraud. These improves capability builds on the large data assets which we already have.

As John mentioned, it's partly improvements in technical pricing that have contributed to maintaining our current year margins in the tough UK Motor and Home market in the first half. In claims, we've made further progress on fraud initiatives. We continue to improve our customer's claims experience with the use of smartphone technology.

We are making further enhancements to data fraud solution to build on a market leading fraud savings and rolling out the system to Commercial. We also launched our legal services earlier this year. In summary, we've had a very busy first half and I'm pleased to say we have made good progress in all areas.

So let me take you through some more details starting with Telematics on page 26. You can see the timeline on the top, how we developed our whole loan approach over the last two years to meet our strategic claim of being a leading operator in Telematics. It's still early days and we continue to grow in scale and to develop our analytical capabilities.

Let me now focus on the new news in Telematics space. We've seen further increases in take up rates post the launch of self-installed Telematics. We love our box so I'll show you quite how small it is and elegant. With rates now, where we can speak to a young driver on the phone above 50% on Direct Line for new young drivers which we get on the phone, which I think is a very impressive statistic. And we think that highlights the potential where we can talk directly to customers and therefore we're looking to increase take up rates across other channels.

In addition, we are expanding to other business areas having recently launched Telematics pilots into Commercial where we have two pilots running. Secondly, analysis of data gathered to date and we have over 50 million driver miles and mounting steadily. So on average, Telematics drivers do drive better. But among these drivers there is still a wide spread between the best and worst drivers and this is supporting now our renewal pricing. We are offering up to 40% discount for the safest drivers versus price derived from traditional rating factors alone.

Finally, we recently announced that we have invested in The Floow, with two o's, a technology company, has a wacky name. A team of specialists U.K. based Telematic experts with links to Sheffield University. Looking ahead we will continue to build momentum in this area whilst further refining our customer propositions and our analytical capabilities.

Now that is our promise – it's a few times but we can now state for those of you that would like to try one of these self-installed device you will find a form in the back of your presentation pack, please complete your details and we'll arrange for device to be sent to you and you don't even have to insure with us. We can just tell you how well you drive and the downside is obviously we'll know. I might put up a league table, which could be quite fun, so we'll see if that works out.

So turning to slide 27 for an update on our digital initiatives. In January 2013 we began transforming our digital capabilities. We completed the rollout of our smartphone and tablet optimized websites, for the Motor in the first quarter which was actually an amazing figure, the first overhaul of our customer quotes and by journey for nine years.

These new websites are operating from our new digital platform which is supported by our new data centers. This new infrastructure has delivered improved analytics around customer behavior which enables us adapt to changing customer needs.

With right people and technology now in place we have the flexibility to adapt and optimize our websites now with the touch of a button. These improvements we've made to our customer journeys had a positive impact on our sales performance. We saw double-digit increase in quotes from mobiles and tablets which now account from around 20% of our online Motor new business sales.

In Direct line we saw about 18% increase in online start quote to sale and in addition we've seen positive uptick in high levels of cover within guaranteed Hire Car, Fire and

Theft, Motor, Legal, and Rescue. We will continue to progress with our digital agenda and use the data insights to further optimize our website.

So slide 28 shows the breakdown of our total cost base as John said earlier, we remain on track to achieve our £1 billion cost target and deliver a 50 basis point reduction in the expense ratio in the first half obviously despite a shrinking top line and inflation.

We've reduced complexity and improved efficiency particularly in our head office functions. Our cost program has delivered a 17% reduction in staff costs year-on-year. Marketing we've improved – efficient more targeted use of marketing spend, particularly important as the market is heavily competing for new business sales.

Looking ahead, we are going to continue to imbed our cost culture in the business and optimize our cost base within our existing systems. Longer term, we've seen opportunity in creating more digital business which allows customers do more things for themselves. This will require continued investment in our systems and the potential benefit for these improvements may take several years to fully realize.

The deflationary remarks are like the one we've seen, our focus on reducing costs will allow us to not only defend, but improve our cost ratios, and I do not intent to lose this focus.

Finally, Commercial on slide 29, very good start to the year, but Commercial which continuous to focus on improving customer propositions and further driving efficiency. We launched several new propositions in first half including Churchill Van as you can see from our logo Churchill with a hard-hat at on, two telematics pilots and a property management app for our Direct Line to business landlord customers.

We continue to grow in the first half of the year particularly in eTrading and Direct line for business and this follows our investments in those areas over the last couple of years.

We now have a comprehensive eTrading product suite and have recently migrated Direct line for business on to a new platform which allows customers to access their documents online. We have further product and usability enhancements plans across these channels.

The first half, or the half year results as John took you through show an improvement in the current year loss ratios, expense and commission ratios which demonstrate the good progress that Commercial has made and gives us confident that Commercial is on track to achieve a sub 100% COR this year with all the usual caveats. I'm excited about the long-term plans we have for Commercial.

So, before I move on to an update on Motor and Home markets, I would like to tell you about our plans for International, where we are very heavily prescribed of what we will say today. So I will read this out very carefully and we have my friend from Slaughter and May in the front row, who will run up if I say anything different. So please bear with us.

You read today's announcement that during the first half we've initiated a strategic review of our International businesses. This review confirmed the growth potential of the Direct channel and also the International division's strong market positions. These businesses have clear paths to succeed and to reach our target returns. However, other companies may have abilities to create further values in these operations, which are harder for us or will take more time. So we are investigating a potential disposal.

Discussions are now taking place with a number of parties, but there is no, of course, no certainty whether disposal will happen. We'll update you in due course, but at this stage understand that's all I can tell you.

In terms of half year performance, International delivered a number of new initiatives in 2014, whilst progressing further efficiency improvements. To take into the whole, in summary, we've maintained momentum in our self-help agenda, improving our competitive position against the backdrop of competitive markets. So with that in mind, now I'll update on the UK Motor and Home markets on slide 32.

So, the Motor markets remained highly competitive in the first half of the year. As I said in Q1, the year started with further price deflation. Although, in Q2, we did see some stabilization, albeit pricing remained bumpy week to week. I believe it's too early to say whether this stabilization will continue, or indeed whether this marks an inflection point for the market.

While the commonly quoted reasons for the market price reductions is the fall in frequency since the LASPO reforms, recent data points indicate this improvement is slowing, although our data shows that we continue to outperform the market. We use this and our other claims trends to support our pricing decisions and in the second quarter, we reduced our prices by around 2% versus same period last year.

The CMA published its' provisional remedies in June, details are included if you want them on page 41 of the appendix. There's been a proportionate response and in particular, we support the removal of car repair from the remedies.

Regulation remains a key area focus for us and we continue be engaged in regulatory matters and supportive of a level playing field. Overall, we will continue to be disciplined on pricing while focusing on improving our pricing capabilities and customer propositions in Motor.

So, that is Motor, turning to Home, so while Motor is showing some signs of stabilization, Home has become increasingly competitive with further market price deflation in the second quarter. There are number of potential factors behind this, small and new business is now being written through PCWs and competitors appear to be moving from Motor into the more profitable Home market.

Our response, as with Motor, is to adopt a disciplined approach, and we have reinvested some of our pricing claims benefits to maintain our strong position in Home. These pricing and claims benefits are evidenced in numbers. The improvement in the current year loss ratio is due to improvement in risk selection and technical pricing, and despite new business pressures, Home continues to improve retention rates.

All positive outcomes for us in the first half, however, I don't want you to underestimate how competitive the Home market currently is. We will continue to make daily trading choices.

So, Slide 33, outlook. A brief reminder of where we are versus the targets with the usual caveat on weather and Commercial large losses. As I said up front, we are on track to achieve our full year targets, which we are reiterating; first half COR of 96.6% is within our aim of 95% to 97% for the year.

Commercials reported a further improvement in COR, remains on track to achieve its sub 100% target. Our first half cost of £496 million, obviously, put us on a good path to achieving our £1 billion. And finally our annualized RoTE in the first half of 15.8% is above our long-term target of 15%.

So, to sum up, page 34. We continue to improve the underlying performance of the business and we are busy driving the next wave of strategic initiatives. UK Motor and Home markets have remained highly competitive, but we've seen a divergence in trends in the second quarter with Motor stabilizing, but Home deteriorating further, maintaining a focus, underwriting business where we see value.

Our Commercial and Rescue businesses have grown top and bottom line by developing new customer propositions and improving efficiency. Our performance means we can grow the interim dividend and pay a special whilst remaining, retaining and maintaining a strong capital position.

Finally, we remain on track to meet our full year target. So thank you for listening ladies and gentleman. I am going to hand back to Operator to brief the people on the phone about questions. We're then going to start in the room and if people can try and stick to two questions so we can get a fair spread of questions. Over to you operator.

Q&A

Operator

Thank you.

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

Okay. We're going to start in the room. We'll do the second row, we'll work along and we'll get to you Andy in a second.

Q - William Hardcastle {BIO 16346311 <GO>}

Hello, guys, Will Hardcastle, Bank of America. Quick one on reserve margins, could you give us any idea of where that is versus the full year, if I look at page 11, it would imply that Motor could not have increased cause you looked like you booked your profit ratio higher than you said on the slide before, that current year is broadly stable? And then second one could you discuss in terms of Solvency II capital indications. It sounds me that ICAS+ is now done, no real movement from that. I guess the next leg of Solvency II – what are the key moving parts and what are the uncertainty elements that they're looking at?

A - Anthony Jonathan Reizenstein

Sure, thanks William. Taking the reserve margin question first. What I'd probably say is overall our reserving strength is, as it was, pretty strong. And yeah, we are quite conservative in our first pick because if you are conservative and actually look at what's happened this year you will see more deflation in pricing and yeah you guys tell us – you are improving your loss ratios but we are on – we haven't seen enough yet, we're on a long term trend so we're not going to give you the benefit of that so that's why we probably got that pick which we expect to come down. So, yeah, message may be change still, strong reserves.

On our capital move to Solvency II. Yeah, I mean, there are – first of all we don't have any particular reason to think things will be worse under Solvency II. There could be some upside because Solvency II model is less onerous than the ICAS we have been operating to. But we don't really know how that's going to work out in practice. The regulator is not going to let people you know – release huge amounts of capital and there is lots of debate going on and question being asked and maybe not so many answers received about how that's all going to operate. It's worth saying that we probably won't operate on the internal model from the very first day. We'll probably take a few months to transition. And so we're probably be on standard formula for a while, but there's nothing about Solvency II that worries us. And yeah longer term it could be some ups and positives from it.

Q - Thomas M. Dorner

Hi, it's Tom Dorner from Citi. The first question I have is on costs. I'm sure you won't be too specific, but can you give a sense of where you are on the journey to improving the efficiency of the business and can you say whether or not you'll give an update on the £1 billion target that you had set for this year -- at the end of the year. So, will you be changing that?

The second question was on capital, so this time last year, the statement that you issued included a phrase that was that you would look for capital -- before you return capital, you need it to be significantly ahead of the guidance that you've given for a long period of time.

Now, you're paying a special at the interim stage which is good, but – so are we to take from that that whenever the business dips above the 150 RBC ratio that you'll be looking to return capital?

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

Good. I'll let John answer the second--

A - Anthony Jonathan Reizenstein

Give me some time to think about it.

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

Yeah, I will. So, I think there's two concepts on lowering costs. The first is that we walk a fine line in a people business about how far you can cut – the pace you can cut, the staff with which you cut, and 17% reduction in staff costs is going pretty quick. That's with systems that haven't changed much and I think our motivation and engagement scores are pretty high and I really want to keep them that way because having people on the phones to our customers who then feel good about business with our fairly unbeaten pricing. This is -- there's another measure you have to keep – take account of and I think we've done a good job to take 17% of costs out of business at the same time as keeping morale up.

The second thing is clearly, there was a destination which I'm not going to share, but we have a notion of a destination of where a fully digital business where it's really slick to operate internally and could be.

And we're investing despite the special, we still got capital to invest heavily in the business, to make it a much simpler business for customers to use and for our people to operate, giving our people great tools.

And that will unlock more cost opportunity. It will take several years to realize, our systems are – there's a long way to go, we've got a lot to invest in and we think we're backing all the right horses on systems. It will take a bit of time.

So, that said, yes, I'm not going to put any numbers behind it, just in case you're expecting any, just to foreshadow that.

Now, that then gives you in the meantime how do we -- what can we expect therefore since it's been a couple of years to get a big step change at the backend and I think we've enough track record now hopefully with you guys to say we're pretty focused on costs and we'll continue to squeeze and drive cost out of the operation. And so I do want to numbers keep falling but as I said, to balance a) the need for motivation of our staff, the big splashy cost targets would be nothing for the motivation of our people. And secondly, we will only be as good as I want to be on costs with consistence, which will take a bit of time. But in the meantime we'll do our very best to just to keep that number coming down. And in this market environment you have to and I am actually quite proud of that the fact that we improved the expense ratio at this point in the cycle and in this sort of market conditions.

A - Anthony Jonathan Reizenstein

Yes, on the capital side first of all there is nothing automatic that we hit 150 and bingo. We could be at 155 and full 155 Q on a day like today but we see it coming down below 150 or whatever. And I will be saying, I explained it you, I'll be saying we are at 155, but I can't give you anything because we are growing that will be great, wouldn't it? We are growing or we are investing whatever the reason is, it's going to come down.

So we look at this very frequently. And this time we looked at it and this time – okay it's not actually 150 where it is right now, but it certainly would have been for a long period. So we would have – it would have passed that test and did past that test. I mean we looked at it and we go forward and we have forecast and everything else and it was going to be above 150 for long period, therefore we've taken (40:19).

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

Okay, yes.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Dhruv Gahlaut, HSBC. One in terms of the capital only as and firstly as you finished the ICAS approval process et cetera. Now has that actually less to a reduction in capital charges as well as in, I see you gave a pie chart at the end of last year where you said what's the counterparty risk, what the market risk, and the underwriting risk has, those risk in actual numbers changed?

Second question is on intangibles; that's been flat since the end of year. In past year you said, as an expense this number will to go up, could you just quantify it as an – how much could it actually go up for example this year?

A - Anthony Jonathan Reizenstein

Yes. On the ICAS I would say that process has not resulted in any change to what you saw before. On intangibles, I am not going to give you a number, but it is on rising trend and it may be little bit lumpy. But yes, it's on rising trend for not just this year but into next year. There will be a period – there will be a point and I won't call it too precisely, but in two to three years where it does level off but we are not there yet.

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

Right, we'll get that one row. Sorry. It's a very systematic ordering.

Mark (41:43), Morgan Stanley. I appreciate you're very restricted on what you can say about the International businesses. But perhaps, just factually speaking, when you look at your economic capital model, what – how much capital is consumed by those businesses and how much, what's the resources as well in that ratio?

And then secondly the question, you talked about this is very significant price discount you could give moving to a Telematics approach on Commercial. Could you describe little bit about what's very different -- I'm assuming it's sort of in renewal or will get a new piece of business. What were you able to really -- that drove that material for, in the pricing there?

Sure.

A - Anthony Jonathan Reizenstein

Yeah. On capital, the international business standalone, separate legal entity reported net assets in the annual report last year on a standalone, so that's probably where I'm going to stop. They entirely don't get proportion from the parent. (42:52)

They are -- no -- what was that one?

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

Good. So I'd say its evolving science and (43:05) Gus you can take out in the break and anyone in the room and quiz him on Telematics and see what discount you're going to get when you sign up. So I -- there are couple of things which we thought would be true, seem to be true, which is, if you take up a Telematics box that says that you are better driver, by having it you get scored and once owned, kind of gameification instincts say that you'll keep driving better and better and better and get a higher and higher score.

Despite those things being true of all people who take Telematics boxes we're then still finding a significant range of driving behaviors and that is giving us the confidence to give a range of prices where just kind of on top of your conventional rating factors up to 40% discount. So two identical twins of same age are doing same job in the same house, with their identical cars, we would see stuff in the Telematics space which would give us a 40% price or support our view of giving a 40% price differential.

So I think that's quite significant. I think that's quite a big deal. And as I said, the other thing before, I think 50%, once you get a young driver on the phone and explain to them, in fact over half take it. I think you're going to see significant deal. Now, it's still emerging, it's still new. We are just doing our first renewals now. But I think all of those facts are exciting enough for us to back as a trend which we want to be at the leading edge of, hence our investment in The Floow as well.

Just anymore, I am at the limits of my expertise here and probably beyond this, so Gus can help you at the break if you want. Yes.

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

Andreas Van Embden, JP Morgan. On the U.K. Motor rates, could you really maybe talk about your book in Q2 versus Q1? What have you been doing with your U.K. Motor rates? Could you also comment on Q3, what are you seeing? So far you mentioned Q2 was bumpy, is Q3 bumpy as well? And finally should the market stabilize, going into 2015, would you be thinking about growing your portfolio then?

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

Will I think about?

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

Growing your portfolio.

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

First thing to say is that we'd love to be, as I think John said, it's not a strategy to strength, right. It's as an outcome of markets and our competitive position. In more favorable markets as we improve our competitiveness particularly on pricing, on PTWs, on distribution, and get our marketing working better that would be fantastic outcome. Let me give you a bit of a sense of the first two quarters though. Page 15 – the Motor page – yeah you can see here our own pricing action Q1 we took our prices down 4% and we lost 1.2% of policies, Q2 down 3% and we lost 0.7% of policies and that is because the market was broadly stable in the second quarter and by bumpiness -- it is just you go one month it's better and then it goes back a bit. July is looking I think on trend to also support a stable position. So I am just -- what I am really being assiduous to avoid is any big forecasts. Clearly the other thing that matters is not only pricing, but what are the claims trends and what we are saying is our claims trends we think probably are slightly better than the market, and I hope so because we invested a lot – all the benchmarking says we'll go claims, our last data said we're a bit better. And that we think is justifying our pricing decisions of minus 2%. So you can make your own observations about where other people might be. But it will be great outcome if we could stabilize, but it's not an objective in itself because we are a value driven business. And to put a group objective and publicly share it would be potentially to destroy value which we don't want to do.

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

(46:40) year-on-year?

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

Yes.

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

What happened Q-on-Q?

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

Q-on-Q prices – I think it is pretty good but we can, if you want -- we can follow up and see what we can say. Okay, let's keep moving. So we will come back to this side in a second. We'll just complete this side and then we can know where we are. Behind you, one more.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks Gordon Aitken from RBC. Pulling levers to boost the return on tangible equity and with the specials and one lever you haven't pull its leverage. It's still lower at 16% and just talk of the scope and you desire to do that? And secondly on just talk about capital. I mean, there is various factors, or stakeholders and would determine the right level of capital. You've got your own analysis you talked about your internal model possibly I mean using standard formula initially and Solvency II comes in, you've got rating agencies you've got regulators you've got customers, albeit you don't have a big, large commercial business. Can you just talk about the balance of those and what determines your level of capital?

A - Anthony Jonathan Reizenstein

Sure. I think on leverage, yeah, 16% is not – is fairly conservative. I think we see that more as a source of financial flexibility than as a thing you necessarily want completely and never often exploit. You know, if you do it too much then you haven't got that flexibility. Is there any particular reason why I need that flexibility at this moment? No. But I think if we did another ten year issue and then you got it stuck there and so on – so and for it to count as capital it has got to be of a certain maturity. So I think I prefer to have that financial flexibility. We do want to grow and some day that will happen.

In terms of the balance, I mean, we define our capital for ourselves. We don't have it dictated to us. I think we defined it before the IPO that we wanted to be able to issue debt, and to have that financial flexibility. And to be able to do that with confidence over a long period having an A rating was a right thing to do. And so we – that is an anchor. I mean, actually, the S&P model would show us being stronger than A at the moment, but that was an anchor.

And for the rest, it's more about our modeling of stresses and tail risks and so on and in our discussions with the regulator, but we take the decisions and obviously we want to have a relationship with the regulator which is constructive. We don't have surprises and we haven't had any. And I'm sure there are healthy debates, but – in general, we – I think we have a good relationship and we ensure that we don't get surprises.

And if you roll that together, we end up where we are. But most of it is driven by our own risk appetite and where we want to be and that often takes into account what those stakeholders think. You're right, there aren't – those are the two main stakeholders, more kind of internal. But we don't have any – there are no concerns by – our commercial customers don't really. I mean, given the point where we run by RBS, some of them were worried that we're BBB, some of the brokers there and that's gone.

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

Okay. We'll we're going to go to the other side of the room for a bit.

A - Anthony Jonathan Reizenstein

And it looks like Andy's missed his opportunity.

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

Right. So we'll get him. Sorry.

A - Anthony Jonathan Reizenstein

Very tough our boss, got to get in there.

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

Trying to have some system, that's why.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks guys. So slide 11 the gross loss ratio is now – it's flummoxed me every time. Is that representative of the actual – where the actual reserve releases are coming from, so as I get into that £75 million from 2012 and about £25 million from 2013, is that roughly where the reserve releases from the Motor book are coming from. Is that how we should think about it?

A - Anthony Jonathan Reizenstein

2012 and 2013 were the biggest release years, and we've had some from all the years that you can see as well.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And so – well, I guess then certainly, there's 2012, it was coming out now, sort of 75-ish, it doesn't feel like there's a huge amount that is (50:50) than 75% loss ratio from 2012. And indeed, if you knew the best estimates for 2012 was going to be sub-75, with the pricing discipline you've shown, do you – would you have took a different decision if you had known at the time that you're going to come out at 75% for 2012? Because, presumably, you could have written more business and made significantly more profits, had you known it was going to end up like this.

And the second question is on International. So whatever proceeds that are obtained, will they be returned via a special dividend? Just to confirm if that's possible or not, if that's possible. And the third question, I guess, on...

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

Three? Hey, three?

Q - Andy Hughes {BIO 15036395 <GO>}

And the third one a quick one. How expensive is Telematics box? Is it about £30? And is it actually a real-time device? Is it connected real-time to – are you collecting data real-time basically?

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

So the last one is easy, which is...

A - Anthony Jonathan Reizenstein

Free to you.

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

Yes. A lot cheaper and certainly lot cheaper installed than an installed black box. Our price is falling all the time, obviously it gets better with volume, but we're not going to give a quantum because this is commercial sensitive. Yes, it does give us the facility should we wanted to keep all of your data live and feeding where you are and how fast you're driving and in what conditions. So, it's a smarter box for example than the Progressive box to top that.

And if you get one, I expect some of you will break into it and see what's in it. So, we're also -

(52.15).

I think the key concepts on pricing is we do have a pricing best estimate, which is a tool which we have in the business to work out looking at the same data, but taking more credence to current trends and that's how we price. And therefore we don't think that our conservative reserving approach is therefore stopping us writing appropriately profitable business at the moment.

A - Anthony Jonathan Reizenstein

And that bridging is something we work on all the time to make it better and better. So, I'm sure in retrospect there's always things you wish you done, but it's not the point – it's not actually the point that you're worried about there, Andy, it's not that reserving conservatism would do that. We could maybe feel – we can study all the opposite with our pricing method, and that you know, we test that afterwards, but you never know in advance. But the main point to point that Paul's made. On the possible proceeds of any possible disposal we are not going to comment at this point. Let's see what happens.

Q - Andy Hughes {BIO 15036395 <GO>}

I guess my question on reserve profits and try to work out where the reserve buffer is in terms of the chart. When I look at the chart we're releasing from 2012, it feels like 2012 has got the best estimate so the reserve buffer probably in 2013 and 2014 is probably quite high but we are roughly where across that chart would you say you reserve buffer lives?

A - Anthony Jonathan Reizenstein

Well, yeah. You – I would certainly say that 2013 – my expectation in 2013 and 2014 will have a lot that will come out later, sure, and less if you go back. That's what I would have expected. Obviously, on larger bodily injury you can get them from early years and that's a lumpy thing and we'll be doing some of that exercise in the second half and you could get a bit of lumpiness from some of those old years.

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

I will cross – we are going to cross the row again and work right forwards and leave a bit of time for people on the phone. I say if we can try and keep it to couple and we will try to keep our answers short as well.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thanks its Ravi Tanna, Goldman Sachs just two questions please. So first one is on dividends policy. Now clearly specials are as has been mentioned specials can be a lever for the return on tangible equity. But just broadly how do you think about how the discussions went when it comes to considering special dividends versus a more sustainable uplift in your payout ratio. Can you perhaps talk a bit about what the factors that they considered and can we expect the same pattern to continue going forward? And then secondly, the question on the regulatory environment and specifically on automatic renewals there has been some discussion in the press around ABI recommendations on automatic renewals pricing, can you just give us a sense of the direction of Travel in the latest, on the situation please?

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

Sure. So, let me start with the regulatory question. So, we were supportive of the ABI saying that as an industry level we think it would good, to have more transparency on renewal pricing. We think that's done as an industry rather than each individual players doing it to ensure consistency and a level playing field. It may take little bit of time to execute, because it's not something everyone's system can do, including ours.

But we think that is the right response to the fact that the market have a characteristic which is it tends to be have promotional prices in the first year. And if we are kind of thinking that that's a good remedy and I think elsewhere I'd stick to the point which is, strong regulation, we think is a good thing for us. And some of the regulation in the first half has been what we want and some of it's been proportionate, some of it we would have pushed a bit further if we had our choice. On that specific point we are, I think we are at the forefront of that thinking, and I think we are pro-reform on that assuming it works across the industry. And I don't think anyone benefits from, I think, a patchy adoption.

A - Anthony Jonathan Reizenstein

Yeah. On dividend policy, I think the critical thing for us is that we have a regular dividend policy that we can sustain and that we don't let people down. And so far I think that's been fine, and we set it less than two years ago. I'm sure we'll review it at some point, but for the moment we are happy with that. We want to beat inflation and we are beating inflation.

So, yeah, you are right, Ravi, the special is a way to correct excess capital. And on balance, I think that's proved, don't use your sustainable regular dividend for excess capital, because it probably won't be sustainable use of special for that, so that's kind a point one and two. At some point we might reconsider that, there is still quite a lot happening below the line, run-off restructuring costs, Solvency II, and so on, I think it will be a while before we come up with anything different from that, that strategy.

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

Okay. Thank you. Right, we have couple more here. We need to be, people on the phone.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Sami Taipalus from Berenberg. Just first of all, one of two questions. On Motor, all else equal, how much would price have to rise for you to be start – to be able to start building IFPs again?

And then second, on claims handling, I know claims handling costs were stable year-on-year, but claims frequency and claims trends seem to have improved a bit. Is there some potential in reducing that number, stable or was flattening just down to the web?

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

Very good. John on the second one?

A - Anthony Jonathan Reizenstein

Yeah, there's – underlying claims expenses are coming down steadily. There is some bumpiness in them because we do periodic reviews of the claims handling provision and the claims handling provision I believe essentially follows the pattern of claim costs and the reserve, the current size of the book. That comes down something in it each year and it's likely to happen in the second half. So I think you get a bit of improvement in that in the second half.

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

And I suspect you're not expecting an answer on the first one. It kind of depends – it depends who you have, which channel, which customer group, how our models look versus other customers' models. But it would be a nice day and when we get there we will celebrate it. But don't really draw on that, because it is more complex than that and it's a pretty unmodelable thing. I think I'm right, looking at Gus with the mic, is that the right answer, yes. Good. Otherwise I would have held them to that something else, so that's satisfying. Okay. Right. Yes, Andrew. Oh, it's Oliver.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Oliver Steel on the line. I don't want to disturb your order. Oliver Steel with Deutsche Bank. Two questions. The first is, you used to talk about keeping the solvency ratio at the top of the 125%, 150% range. I think you previously sort of talked about another 12 or 18 months, I think that phrase has dropped, I was just wondering what sort of timetable you are still thinking about?

Secondly, I've not yet worked through what's happened to your claims reserves – what's driven the reduction in solvency cost rate, I guess I missed this, but is there anything exceptional in that first half reduction in the solvency requirement or is that sort of run rate we should be thinking about?

A - Anthony Jonathan Reizenstein

Yeah I can't remember the precise things I need. I worry about saying something that may be proved wrong. I think, to answer your earlier question, the one to go with which is we talked about a long period of time and we didn't tell how long that was. I don't think we ever said how long that is given the credit for judging that at a time in relation to the risks there are.

And yes we put something for that. They would have been above 150 at the top of the range for a long period of time. So I think I'll kind of answer the question as much as I can.

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

The 125% to 150% range?

A - Anthony Jonathan Reizenstein

Within that. Well, I think I've said on that one. Given the risk and uncertainties we got we want to be at the top end of the range. So those things are not going to change from December to June. You take the ICAS for the one off thing we have to do that process.

And we haven't done it before, the ICAS+, we probably won't ever do it again now. But so that was bit of a one-off but there are other tailwinds and headwinds, we gradually work through them. But we continue to invest in the business. The markets are still competitive. And we still do have below-the-line costs and so on, so I think – in terms of the dynamics of reduction, two things, that means, yeah we got shrinkage in the book and yeah, but we also have modeling, our modeling improves as we go forward, we challenge the models and so on and sometimes we get the benefit from that. I wouldn't say there was a trend that we could follow.

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

Right final question I think the room for Ken.

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

Andrew Crean with Autonomous. I am tempted to ask a commercially sensitive question, if you really do get all of this data from us about how we drive, I want to know whose scored worst in the management team – or we can leave that aside for later. Two questions, firstly why you do special dividends not buybacks which tightening the balance sheet and tightening earnings per share? And secondly can you talk a bit more about the household market which you gave – given fair warning on, really around I suppose two or three issues, one what kind of returns is that business making. Two what's the split between Bank and Direct business. And three what is actually happening to pricing? You said it's competitive, but what is happening to pricing?

A - Anthony Jonathan Reizenstein

Okay. Well I give John a bit of warning on the specials. So Home market, also in Q2 is the Motor market kind of stabilized and the Home market mark went down again. So probably year-to-date we reckon the Home market is down about 5% versus the whole of last year it was down somewhere between 5% and 10%.

So it's kind of so it's gone down and we priced less than that and we've made trading choices in the first half which resulted in us keeping or slightly improving loss ratio and having a consequence on the premiums and that's particular on new business because actually our retention has gone up.

I think we've been on record before about saying about half our book is kind of partnerships roughly. I don't think there's an out fee on that. In the sense again, we haven't -- we don't do divisional disclosure, but I mean it's – the terms are attractive. I think is it sufficient, John. Yeah, fine.

The dynamics are our return to flexibility to make different trading choices. We have a very good set of cards on Home. We've got great brands. We've got a fantastic book. We've got loads reserve. We've got quite a lot of pricing projects are on Home. We have lots of claims project on Home. We have obviously got cost savings program which will benefit Home. We have claims initiative to make our Home claims really swift and easy. We've got lots of marketing propositions coming down the track.

So I don't want to dress up that it is a competitive market, but our response is going to be competitive, but not to prejudge or make any forward looking comments which I can't – I can't make. And yeah.

Yeah, on the first question, Andrew. We had some debate about buybacks. We – it's a divisive issue, some shareholders like them, others shareholders don't like them – maybe we will hear after this one some more feedback from some them as we go around. There are other issues we debate such as, you know, is it right that we put a price on the shares. What price would we put on the shares? What does it mean? What happens if you get it wrong and it changes? Then the question of volatility that it might engender, so a special dividend is a simple beast. We understand it so that helpful. And so I'll probably develop – we'll look at further and see what feedback we get but if you think it's really, really great idea, maybe we should think about it.

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

Worst driver?

A - Anthony Jonathan Reizenstein

Worst driver? It's classified. Yeah.

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

Yeah, with a little feedback, performance always improves, doesn't it? I do genuinely hope you will do and we would put up a league table. I think that would be quite fun. So that's not for now. Sorry everyone on the phones, you waited a long time. I'll ask the operator for any questions.

Operator

We have a question from Greig Patterson. Please go ahead.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, gentlemen. Just on the commercial market, I wondered if you can talk about the market environment and sort of on a product line sort of basis, whether we're having a softer market or we are seeing some hardening there, just so we have some context? That's it.

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

Okay. Can we get all of your questions Greig?

Q - Greig N. Paterson {BIO 6587493 <GO>}

That's it, one question. All the others were answered today. Surprisingly.

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

The market which we're calling a sub segment of commercial which we're saying is very competitive is Van – about as many of the characteristics of the Motor market place, but we have many of the assets of the Motor market place. So we're not giving up on that market, in fact we want to do well in it, but it's a tougher market place. I think what we're saying is we quite like – these are competitive markets, but we quite like the small end of SME, we think that's a great market place for us which benefits us.

Some people ask us with the international announcement there's been absolute clarity this is a very deeply integrated and very synergistic business for us. We're using the same rating data to help us from Motor and Home, which most of our policies are based upon, we use the same brands in Direct line. And we have transfer of people and many of our thinking and our systems approach we think is meeting the commercial market it's going to be more iterated and will drive business. So we are opportunistic about our commercial business and we'll talk more about it in the future.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Around the same area, we're seeing a hard – I mean, other say with a support base in place, we're seeing a hardening environment. So are you seeing that?

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

My commercial MD is giving a hand gestures which implies, sort of, flat.

Q - Greig N. Paterson {BIO 6587493 <GO>}

So generally your rates have been flat recently?

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

Yeah. I mean, we are achieving some modest single digit increases in most classes, banding the exception. The market is nowhere as soft as the personal lines. So I generally characterize it as kind of bumping along at the moment.

Okay, thanks Greig.

Thank you.

Right. Operator, any more?

Operator

There are no further questions on the phone line at this time.

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

Okay. Well, thank you very much for coming in and come back next time to everybody scores on the doors. Thanks for coming. Cheers.

Operator

That does conclude the conference today. Thanks for participating. You may all disconnect.