Q2 2019 Earnings Call

Company Participants

- Gary Duggan, Chief Executive Officer
- Lance Henry Batchelor, Group Chief Executive Officer & Executive Director
- Mark Watkins, Director-Investor Relations
- Robert Allan, Chief Executive Officer-Acromas Insurance Company Limited
- Robin Shaw, Chief Executive Officer-Saga Travel

Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Edward Morris, Analyst
- Nick Johnson, Analyst

MANAGEMENT DISCUSSION SECTION

Lance Henry Batchelor {BIO 6884486 <GO>}

Good morning, everybody. How are you? Welcome to Saga's Interim Results. Let's have a look at today's agenda. As usual, I'm going to give you an overview of our results. I'm going to tell you about the progress that we've been making against the strategic initiatives that we announced at the end of last year. Mark Watkins, our Director of Investor Relations, is stepping up to the plate today to take you through the financials.

You will also have seen that we've recently announced the appointment of James Quin to become our Group CFO. James is here somewhere. Where is he? I saw him sneaking. He's hiding in the corner. He's here today officially as an observer. He can't take your questions because he doesn't join us until January 1. But I'm absolutely delighted to welcome you here today, James. He's a great catch for us, I think. We're delighted to have someone with his background and his experience in the insurance industry as an FD and in Investor Relations, and in fact, a few years, as an analyst as well.

Gary Duggan will update you on the progress that we have been making with our key strategic initiatives in the Retail Broking business. Next up is Rob Allan, who I recently appointed as CEO of AICL, our in-house underwriter. Rob joined Saga back in 2002, and he's been involved with AICL ever since the start of it. He's going to cover AICL's operating model and give you some insight in how it remains competitive and how it retains its competitive advantage. Then, we're going to open the floor to questions. We're also joined by our CEO of Travel and Cruise, Robin. Where's Robin? I saw him – hiding over there. He's over there if you want to ask him any questions about cruise afterwards.

So, let's have a look at the key highlights. In December of last year, we announced our intention firstly to invest in some new customer acquisition; secondly, to reduce our cost base and to deliver a more efficient operating structure. Today, we're going to show you that we have made some really good progress in all of those areas. The investments in new business and improved retention in our Retail Broking division have brought our policy count back to the levels last seen in the first half of 2017.

Our underwriting results are again strong. Travel has delivered a solid performance. Growth in our cruise passengers and revenue from our existing fleet and for our new ship, Spirit of Discovery, continues to support our ambitious plans for the cruise business. Implementation of the cost reduction initiatives that I mentioned and a more efficient operating structure has led to lower operating costs across the group. The Saga model has again done what it does so well, generated lots of cash and supported the payment of an interim dividend of £0.03.

Let's have a look at Trading. Trading has been in line with expectations. Our underlying PBT was lower, reflecting, firstly, the planned investment in new business and improved retention in our insurance business. Secondly, an increase in new business acquisition costs in a challenging home and motor insurance market. Thirdly, a reduction in the written to earned adjustment, as expected. And finally, all of those offset by a strong underwriting performance. We've had another period of strong cash generation, which has brought net debt down by £30 million.

If you look at Retail Broking, I'm pleased to report that our investment in new business and improved retention has resulted in an increase in the number of core policies, up from the second half of last year and back to the levels at the first half of last year. Some of this increase relates to the normal seasonality that we have in our business, but it's also the result of a 19% increase in motor and home new business volumes achieved in the first half of this year. We continue to see opportunities to invest in attractive long-term value, in part supported by our high multiple product holdings.

Let's have a look first at motor. In April, we outlined plans to grow the customer base through new business investment, through better customer relationships, and over time, a broader panel. I'm pleased with the progress that we're making on all three of those and Gary is going to give you more detail on that later.

The motor insurance market remains challenging. Premium inflation has slowed down, driven by the expectations of lower future claims costs from the part reversal of the Ogden rate and whiplash reforms. Although we've seen lower average retail premiums, this has been partially offset by lower net rates from our motor panel.

As you know, adding new policies comes with a short-term cost. Typically, the cost of acquisition and set-up at a competitive market price points means that a new motor customer may take between one and two years to reach breakeven. This is evident in the drop in revenue per policy to £86 in the period, in line with the increased proportion of new business as shown in the table.

Our profitability per policy has increased from the second half of last year, reflecting an improvement in retention levels and the benefits of our lower cost base.

Now, let's have a look at home. Our home broking business continues to be robust, albeit in a challenging market. After a positive first half for our home product, we're now seeing upward pressure on net rates from our home panel after the adverse weather conditions that we saw at the start of the year. This is expected to impact profitability in the second half of the year as we don't expect any improvement in the competitive environment in the short term.

Let's have a look at our underwriter, AICL. AICL has again delivered strong underwriting performance. The continued focus on disciplined pricing and our excellent claims management has resulted in a reported COR of 61.5%, reserve releases of £38 million for the first half, and this is testament to Rob's team. For the full year, we expect AICL's performance to continue to be stable and for reserve releases to follow that typical seasonality.

Turning now to Travel. Our Travel business is on track. It continues to be right at the heart of the Saga brand. It's the area where our ability to differentiate for the benefit of our customers is most obvious. We're seeing a change of mix in our tour businesses with a shift towards higher margin products, offsetting a small decline in customer numbers.

Our first new cruise ship, Spirit of Discovery, is now more than a design. The photo that you can see on the slide is the first eight blocks and main engines. It's exciting to see something that the team's been working on since 2015 now becoming a reality. The build continues to be on time for delivery in July of 2019. And our forward sales continue to be strong and to support our ambitious plans. In the years to come, Travel and especially cruise will grow to be a more and more significant part of Saga group's profitability. We're good at it, it's strongly differentiated, and we're getting better at it all the time.

Just before I hand over to the team, I want to touch on multi-product holdings. Now, we've spoken a lot in the past about multiple product holdings, there's no doubt that the halo effect of the Saga brand has encouraged many of our customers to buy more than one product. Having replaced almost all of our IT platforms now, we have a better, more flexible technology, and we've made good progress with engaging more closely with our customers through our membership scheme Possibilities. It is a priority for us to increase the number of multiple product holdings across the group. This is unlikely to deliver rapid results, but this metric is core of the Saga model. It's something that we'll be explaining and measuring in more detail in the future.

On the slide, there's some high-level data showing the level of holdings within our customers. It sets out the current distribution of multiple product holdings by division. As you can see, we have a high level of product holdings across our businesses with 31% of our travel customers buying another product from our insurance business.

There is an opportunity to improve these figures further. I believe we're in a unique position to be able to maximize the long-term value of our customer base through increasing product holdings across the broader group.

As you can see from this table, currently, 44% of our customers own more than one product with Saga. We're confident that we're now better-positioned to grow multiple product holdings with the benefit of the investments that we've made in renewing and refreshing our systems.

We have invested in new capabilities: one, we've replaced the majority of our IT systems; second, we've put in place excellent digital CRM systems; and, thirdly, we've successfully launched membership.

These efficient operating platforms are enhancing our customers' experience and providing us with a more centralized view of the customer. It's our ability to attract and retain customers that offer attractive long-term value from across the broader group that gives us confidence in the future.

Let's have a look at Possibilities in a bit more detail. It's an important part of our efforts to increase multi-product holdings, partly because it will help strengthen the brand, partly because it opens up new communication channels from us with the customer; and on a purely practical basis, it helps us with GDPR.

We must ensure that there are clear commercial benefits to Possibilities. As our customers become members, we believe that our relationship with them will change and this should be reflected in improved retention, improved multi-product holdings and in customer satisfaction scores and brand strength.

We now have over 850,000 members. We're well on our way to my unofficial target of a million members by the end of the year. We continue to add features to membership at little cost to ourselves and, for example, Travel Possibilities was launched earlier this year. This provides our members with access to exclusive offers from Saga and from our travel partners.

Since its launch, we've seen excellent engagement and it's proving to be a rich source of first-time travelers at Saga. Already, over 1% of our cruise bookings are from Travel Possibilities and a third of these are new customers to our cruise business. This will be critical as we fill the increased cruise capacity with the arrival of Spirit of Discovery next year and Spirit of Adventure the year after.

Within insurance, the first of our customers who joined Possibilities at launch are now starting to renew with us. As they do, we should be able to demonstrate a retention benefit from Possibilities. However, I would caution against too much exuberance at this stage. We're only now starting to lap the very first members who signed up with us last September. But as the scheme progresses and as it broadens and becomes more attractive to customers, we'll be monitoring the impact of it on the rest of the business and we will report our progress to you.

Okay. So I'm going to hand over to Mark now, who will take you through the numbers in more detail. Mark?

Mark Watkins {BIO 20149761 <GO>}

Thanks, Lance. Good morning, everybody. It's a pleasure to be presenting this morning as a one-off before James joins us in the new year.

Looking at the key points for the first half. Underlying PBT, our preferred measure of profits, was down 3.7% or £107 million, reflecting our decision to invest in new customers and is in line with our expectations. Our reported profits were up 3.2%. The only difference between reported and underlying profits this period is a £2 million gain in the fair value of derivatives.

Net debt was £30 million lower than a year ago, driven once again by our strong cash flows. Our debt ratio was unchanged, reflecting the lower levels of net debt and the expected decline in trailing EBITDA. The stability of our cash generation has allowed us to maintain an interim dividend of £0.03.

Turning to each of our businesses, earned profits in both motor and home broking are down from the first half of last year, reflecting the increased investment in new business and the corresponding increased proportion of new business volumes. Other broking achieved a modest increase in profits, reflecting a slight change in mix between PMI and travel insurance.

Profits in our underwriter were only marginally down, reflecting the stability of its in-year profitability and ongoing reserve releases. And, finally, the Travel division was flat with profits of £12 million.

The chart on the right-hand side shows the profitability of our Retail Broking and Travel businesses for the past three halves. This clearly highlights the increase in profitability from H2 last year despite the increased investment in new business.

There's a lot on this slide. It shows the written performance of each of our insurance products. Gary's here to take us through motor and home in more detail, so I'm just going to focus on the right-hand column. In total, our gross written premiums were £309 million, a slight decline from the strong prior period. This is driven by the market conditions in motor and home that Lance described earlier, and investment into the policy count that has returned to 2017 level.

Our total broking profits were £63 million, an improvement on the £59 million from the second half of last year, but down £4 million from the strong first half. You can see that this was largely because of motor business as a result of the increased mix of new business, offset by some cost saving.

The written to earned adjustment has significantly reduced as guided. The motor reduction relates to two things: a positive adjustment to broker revenue from an increase in third-party share of the panel, offset by a lower deferral of costs. Home reduced to zero because we've outsourced the underwriting of home add-ons.

Now, turning to our underwriter, AICL. I'm just going to cover the highlights because we've got Rob here to take us through the details. AICL has again achieved another strong and consistent results. The reported COR, excluding the quota share, of 61% and pure COR at 97% are in line with the previous half. Reserve releases are £38 million, a similar level to last year, largely driven by our excellent claims management and our experience on small and large PI.

Looking at AICL's capital position, the solvency capital requirement reduced to £71 million, benefiting from our claims experience and another year of our 75% quota share arrangements. The Solvency II ratio is strong at 156%, even after paying a £50 million dividend from our underwriter. This is now back to a more normal band.

The travel business has performed as expected. Profits are slightly up at £12 million. Within our tour business, we continue to see the shift in mix towards higher margin products with fewer passengers. This trend can be seen in both the first half results and the forward booking position. Our cruise business continues to perform well with profits of nearly £5 million, a very good performance as our old ships approach retirement. Cruise revenue increased by 6%, driven by no maintenance days in the half. By comparison, Saga Pearl required 19 days in the previous half. Profits were flat against the previous half. This was down to an increase in cost of goods sold of £0.8 million from the accounting treatment of gains on our fuel hedges. There was no cash flow impact.

This is our usual slide that shows the profitability of our Emerging Businesses and Central Costs. A fuller split is included in the Appendix. Emerging Businesses are still small, but we're making progress. Profits of £2 million better reflects the underlying performance of these businesses, with the previous period including £0.5 million of one-off costs associated with the restructuring of the Tilney JV. As guided, our IAS19R pension charge has fallen as we completed the valuation of our pension scheme. Our lower average net debt meant we have benefited from a lower finance cost.

Our cash flow was again strong at £90 million. This is driven by an increased dividend from AICL to PLC of £50 million. The main items of CapEx, excluding the ships, continues to be the replacement of our IT systems. As a reminder, we're around halfway through our implementation of Guidewire. The Travel business continues to retain cash to pay the installments on the Spirit of Discovery and Spirit of Adventure.

Shown on this slide is the operating cash flow before CapEx of the Travel business and how this cash flow funds the ship installments. The operating cash conversion before CapEx is extremely strong. The cash business generated £21 million of EBITDA and £48 million of cash. This strong cash conversion comes from our booking profile, our customers book early and a positive working capital cycle. Included in the Appendix is the same information of the last two financial years.

The Travel business has so far funded £68 million of total CapEx for Spirit of Discovery and Spirit of Adventure. The ship installment of £13.5 million in the first half was the final payment for Spirit of Discovery prior to her delivery in July 2019. We still have a commitment of £47 million for Spirit of Adventure and included in the Appendix is the phasing of those payments.

The cash flow of the Travel business will take a significant step forward with the delivery of each ship. Each ship is expected to generate between £40 million and £50 million of EBITDA and cash flow per year. Without any further commitments after the delivery of Spirit of Adventure, Travel is expected to resume paying dividends to the PLC and contributes towards the available operating cash flow of the group and the deleveraging.

We presented this graph at the prelim results. It's key to understanding the future debt profile of the group. As a reminder, it shows in blue the net debt for the group, excluding the ships, and the green and gray bars are the asset-backed loans associated with each ship. The £40 million to £50 million of cash flow from each ship is a significant contributor towards the group deleveraging profile shown from 2021 onwards.

The key operating sensitivities of the ship's cash flow are shown in the table. Importantly, the Spirit of Discovery, we are hedged to 2020 for fuel costs, and our booking profile is strong.

Now finally, financial outlook for the full year. We've used this bridge before. We think it's a helpful way to think about the moving parts of the group. The first three bars are unchanged from our previous guidance. The last two, underwriting and underlying growth, reflects the change in mix seen at the half year. This is expected to continue for the second half, principally driven by the impact of increases in net rates on our home panel, and lower average motor premiums.

AICL's performance is expected to continue, but with a slight reduction in investment return reflecting up on sale in the prior year. In summary, we are maintaining our full-year guidance for a circa 5% reduction in underlying PBT, although how we'll get there will be slightly different.

I'll now hand over to Gary to cover our Retail Broking business.

Gary Duggan {BIO 18331803 <GO>}

Thank you, Mark. Good morning, everyone. It's a pleasure to be presenting to you all again today at our interim results. For the preliminary results session we had, I outlined some of the opportunities that I saw to grow our Retail Broking business. And in the six months since then, I'm pleased to say we've made some significant progress against those initiatives.

As Lance said, we've invested in customer acquisition, we've deepened our relationships with our panel and broadened our customer footprint, and we have created a leaner, more efficient operating model. We've invested in acquiring new customers as I've said, and I'm pleased to say that we've seen a positive response from those investments in pricing and marketing.

And as Lance said, our motor and home new business volumes have increased in half by 19%. And after a 6% drop in overall policies last year, we've seen Saga-branded policies increased by 0.6% in this half in what's been an even more competitive landscape.

Saga-branded motor premiums have increased by 0.5% (sic) [2.5%] to £125 million, reflecting the benefits that we've seen from lower net rates from our panel members, enabling us to be more competitive in the market. And you will have heard, I'm sure, from some of our peers that the market conditions for both home and motor have been very competitive this year and are set to continue into the second half, home specifically impacted by the adverse weather conditions that we saw at the end of last year and the beginning of this.

We remain absolutely focused on building the strong affinity that we have - our customers have for the Saga brand to attract new customers and retain our existing customers. The majority of our customers are still sourced through direct channels, typically at a lower cost than many of our competitors, who are more reliant on price comparison websites.

One of my key focus points for H1 was to build on the strong retention performance, ensuring that we retain our customers but at the right price. And overall persistency has recovered since H2 last year. It's up 1% to 69.9%. We continue to see positive multi-product holdings, the affinity our customers have with the Saga brand, and the average multi-product holding is around 1.7 for Saga insurance customers. With the introduction of Guidewire, we're in a really strong position to broaden the product holding the customers have with us into the future.

I also mentioned earlier on in the year that we had a motor panel that was - it's still in development and we're now really starting to see some of the benefits, from positive loss ratios that the insurers are seeing, which has led to a more competitive panel. And the third-party panel have started to significantly increase its share of new business volumes, doubling since the half last year to 17.2%. The panel has been historically very successful in winning business in specific segments of the market and we haven't expanded the panel and the footprint as broadly as we would have liked.

We've made some significant progress working with our panel in AICL to grow into the new segments of the over 50s market. And that work is really now starting to pay dividends and we are becoming more competitive across a broader footprint with 67% of our growth coming from drivers between the ages of 50 and 65. The relationship we have with our members puts us in a unique position to provide better data than other brokers operating at our demographic, ensuring that we have access to the most competitive cost of risk.

We've provided insurers with increased access to that data, which has really helped to secure some of those lower net rates that I mentioned earlier on, which helped support our growth aspirations. There's more work to be done, but I'm confident that we can build on the excellent start we've made in the footprint expansion project.

And finally, I said we simplify the business model and ensure that we operate as efficiently as possible. And during the period, we've now transferred all of our motor new business volumes onto the Guidewire platform, which has helped to streamline the customer journey and improve our contact center efficiency further. Our new systems have helped support our focus on operational efficiency and performance excellence by removing unnecessary complexity within the business model.

And as a consequence of that. We've seen a 19% reduction in our operational cost per policy. This has been achieved whilst maintaining the high standards of service that our Saga customers expect from us. We'll continue to leverage the platforms to create further capacity for growth and ensure that we run our business in the most efficient way, allowing us to price even more competitively.

So our key priorities for the future will be: continue to drive policy growth, but only attractive lifetime values; to build even deeper relationships with our customers through our membership program, Possibilities, and through our cross-sell and retention programs. We'll work closely with AICL, with Rob and the guys, to continue to evolve our product proposition so that we remain relevant for future over 50s.

We'll leverage the unique customer data that we have even further and build on the strong relationships that we've built with our panel in AICL to expand our competitive footprint. And we'll drive further efficiencies in the group by being more focused and leveraging our new insurance platform even further into the future as we roll out more and more products onto that platform.

So as you can see, I am of the belief that we have all the right components to be a highly successful insurance broker in the market, and the teams are absolutely focused on delivering these initiatives in the second half of the year and beyond.

So now, I just like to hand you over to Rob Allan, CEO of our insurance underwriter, AICL. Thank you.

Robert Allan {BIO 7510183 <GO>}

Thanks, Gary, and morning, everybody. So I'm really pleased to be talking to you today about AICL and our results. As you know, I've recently taken over as CEO, but having spent over 14 years at Saga and being with AICL from inception in 2004, I've got a great deal of knowledge about the different components of our underwriter and what makes it successful. And it's AICL's strengths and our market-leading claims handling operation that combine to deliver our consistent results.

But what makes us different and what are we good at? Well, a key difference compared to many is that we don't follow the market cycle. We price to a fixed return on premium, and by that, I mean, we set our prices to cover our target return plus all of our costs. So if competitors choose to cut prices and chase volume, or increase prices and go for profit, we don't react to those market movements. We simply price to our return, aiming to give the most competitive rate to Gary's broking business.

At the operational level, our main strengths are in risk pricing, where we recognize it's all about the data and how we use this creatively to make the most accurate assessment of risk. And our in-depth knowledge of Saga customers is another contributor to our predictable performance.

With claims handling, we understand all of the levers and actively manage these to minimize our cost. And external benchmarking shows we're best in class with controlling our spend. And we've got strong open relationships with our reinsurance partners, and we deliver competitive reinsurance solutions for our business. And our consistent performance enabled the renewal of our motor quota share with both NewRe and Hannover Re supporting our business from February next year. Putting this all together, you see why we provide a solid contribution to Saga.

So you've seen the results, and we've delivered another period of both good in-year experience with core profits of £7.6 million and prior year releases of £38 million. And our half-year PBT remains broadly stable from this time last year.

The chart on this slide summarizes AICL's full-year revenues and profits over the last four years, and again, you see the stability of our results. And this stability starts from underwriting customers at the price that accurately reflects their risk and then actively managing the claims cost.

And we can look at how well we manage the claims spend by reviewing trends in motor claims. The graph here shows monthly per policy ultimate costs for small motor claims. Here, small means excluding bodily injury claims over £250,000 in value.

So, just so you know, we're capturing about 80% of our total claims spend here and cutting out the volatility associated with the largest. And you can see our consistent management of claims contributes to very stable experience. And our control of costs has seen claims inflation managed to be in line with our pricing assumptions. So combining the stability of our claims costs with pricing to a fixed return and not following the market cycle, all helps explain why we deliver stable core profits.

Now, AICL takes a prudent approach to underwriting and this, along with our cost control and favorable claims development, has resulted in reserve releases over the years. The chart here shows the development of our booked claims costs over time, and we've seen different years develop in different ways.

So, for example, in particular, you can see that 2012 through to 2014 have contributed significantly and over £200 million of releases have come from these years. A resetting of prices in 2015 contributes to the change in the pattern of ultimate costs from that year. And if we zoom in on half one, you get to see that the releases reported today come mainly from more recent years of 2013 through to 2016.

In my penultimate slide, I want to highlight the key points of our capital-light strategy. And as you know, the good news is that we've renewed our motor quota share from February 2019. We've got both NewRe and Hannover Re on board, and they're taking an equal share of an 80% session. The new deal structure also provides long-term capacity for AICL, allowing us to underwrite more business in a capital-efficient way.

The chart that I've included here demonstrates the capital efficiency of the quota share, where this has allowed us to hold over £50 million less capital in AICL on very cost-effective terms.

So finally, and to summarize AICL's key priorities, we'll continue to enhance our risk pricing algorithms, whilst remaining focused on our claims handling excellence. And we'll deliver process improvement, where, along with my team, we've identified several areas that we can gain efficiency on. And we'll evolve our underwriting footprint. And by focusing on these priorities, we'll deliver the most competitive premium to Gary's team, allowing them to focus on attracting business and growing policies that attractive LTVs. I'm really excited about the opportunities ahead.

So, thanks for your time today, and I pass you back to Lance.

Lance Henry Batchelor {BIO 6884486 <GO>}

Thank you very much, Rob. So, let me summarize. We're continuing to invest, as we said we would, to attract new customers. Our in-house underwriter, as you've just heard, continues to perform strongly. We're focused on leveraging our IT platforms and our centralized customer view to target high, lifetime value from multiple product holdings. The business remains highly cash generative, it'll be even more so with the operation of Spirit of Discovery in 2018 (sic) [2019] and Spirit of Adventure in 2020.

The strong cash generation allows us to make targeted investments to reduce debt and it supports the dividend. We've been able to return our customer numbers back to the H1 2017 level. And given the changes that we've made in terms of technology and systems as well as the broader progress that we're making with Possibilities, we're very excited about the potential for Saga. We're very focused on delivering further progress in the rest of this year and into 2019, when our first new cruise ship starts to positively impact profitability and cash generation.

So, that concludes the presentations. Let us take Q&A, please? If I could ask you to wait till you've got the mic, say who you are, and try not to load five or six questions into your question. I can't remember them all. Who's up first?

Q&A

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

Good morning. Andreas van Embden, Peel Hunt. I think I have two questions, then. On the footprint, and I'd like to split the question between the broking business and AICL, please.

First of all, in the broking business, you mentioned you're building stronger relationships with panel. Could you maybe give some examples of how these relationships are strengthening? What incentives are you putting in the panel for it to operate more efficiently, and what incentives do you have for the panel to expand the footprint and in which areas?

And, actually, same question for AICL. You finished off saying you were looking at evolving your footprint. Could you maybe talk about that because your policy volumes were down 8% during the first half, so what is evolving and where are you moving your policy ambitions towards? Thanks.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Gary, and then Rob.

A - Gary Duggan {BIO 18331803 <GO>}

So, really, our ability to grow within those new segments very much comes from the data that we're providing. Now, the data that we are providing to the insurers is more granular data than we've ever provided to them in the past. One of the challenges from them is we want you to write business that under 65s. And so, we don't know what business we're not converting in the under 65s, so we start to provide them with some granular information about what that business was, where we're getting quote, where we were and converting it, and they've started to give us more competitive pricing to enable us to grow that segment of the base more effectively. As we kind of grow and expand the motor panel, hopefully potentially in the future with some new panel members, then that should help us to expand that footprint even further.

A - Robert Allan {BIO 7510183 <GO>}

So, from our perspective as one of the underwriters on the Saga panel, we do follow - our business volumes follow Saga's broking success, as well as the competition that's driven from the rest of the panel. But what we'll be doing to evolve our footprint, I think it's about recognizing that as the in-house underwriter, we can't just stand still and follow fortunes. So, we're making an increasing use of the data assets that are available within the group to slice and dice and look for those segments that provide opportunity for us to underwrite, subject to our business model, subject to meeting our fixed return on premium. So it is about data and data analytics.

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

Are you now writing outside of your traditional footprint, maybe increasing your risk appetite?

A - Robert Allan {BIO 7510183 <GO>}

So, to the extent that we follow our business model, which is the plan, there's technically nothing outside of our risk appetite, I would say. We have got a price for everything, but it's our - our price is as correct as they should be, as they are the - as accurately reflective of the risk as they should be. And if we make a judgment that there's a segment where, relatively speaking, compared to an old view, we should cut prices and we still meet our fixed return, we'll cut prices, we'll gain volume and we'll expand our footprint.

Q - Edward Morris {BIO 16274236 <GO>}

Thanks. Edward Morris, JPMorgan. Two questions, please. First is on the home business. You're talking about some pressure coming in because of higher net rates from your panel in home. Just wondering how you're thinking about managing the policy count in that business. Is it that you're aiming to maintain a flat policy count or how do you balance that mixture between margin and customer numbers?

And second question is on reserve releases and sort of coming back to that guidance slide that you have where you're talking about the mix shift being sort of more towards underwriting and less towards, I think, underlying growth. Can we just think about reserve releases going forward? Should we expect that the better performance this year to be maintained or is it just a kind of one-off in this current period? Thank you.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

So, Gary, I think the first one is yours, and then you're going to take a swing at the second one, Rob?

A - Robert Allan {BIO 7510183 <GO>}

Yeah.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Yeah. Okay.

A - Gary Duggan {BIO 18331803 <GO>}

So, I think from the homes, I mean, we operate in a dynamic market. We're reemphasizing the point, we will only deliver policy growth where it's sensible to drive policy growth, where there are attractive lifetime values. And at the moment, we can write the policy numbers that we wanted to write at the right lifetime values. But clearly, if that changes, then we'll see.

The good thing that we have within our business is we've got a diversified product portfolio, which enables us to shift some of that investment from one product to another, depending on kind of where the pressure might be in the market at that particular time.

So, we just continue to manage the right balance between the margin and policy growth. But as I say, we will only drive policy growth where we know we can deliver attractive lifetime values. And obviously, some of that value then translates into AICL as well, if AICL underwrites some of those policies.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

And then, in my nearly five years here now, I have seen the mix shifts back and forth between home and motor, and even to travel insurance depending on market conditions quarter-by-quarter. And so, we don't go into a year with a rigid plan for home and motor. What I say to Gary is here's your profit target and here's your policy target, and he then goes out and he plays all of the different options in order to optimize the returns for us and does it very well, I think. Rob?

A - Robert Allan {BIO 7510183 <GO>}

And so, on reserve releases, well, Mark commented that the reserve releases were pretty similar year-on-year. We do expect it similar year-on-year. But the key thing is I think there's been a consistent message that we do expect reserve releases to decline. The graph that shows how the big reserves have changed, it's remarkably similar actually to certain peers at home. And you really do see that those years that are highlighted are big contributors of reserve releases. And more recent years don't have the same profiles. So we'd stick with that guidance.

Q - Edward Morris {BIO 16274236 <GO>}

(00:44:20-00:44:25).

A - Lance Henry Batchelor {BIO 6884486 <GO>}

We're not changing that guidance at the moment. At year end, we'll have another look at that and see if that still feels right.

Nick?

Q - Nick Johnson {BIO 1774629 <GO>}

Morning. Nick Johnson from Numis. Just question on tours. Could you just comment on why passenger numbers were down? Is there any particular factor behind that in the tours business?

Secondly, on revenue growth in the Emerging Businesses, could you just elaborate a bit on which particular business has driven revenue growth? Is it financial services? And, thirdly, on the investments in customer acquisition, as you look out to 2019, do you expect that investment to remain the same, or decrease or increase, or has the business sort of had the kick start it needed now? Thanks.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Sure. Robin, are you happy to take the question on the passenger numbers? Yeah? And then, I'll ask - on the revenue number, are you happy to take that, Mark? And then, finally, Gary on the third one.

A - Robin Shaw {BIO 20138547 <GO>}

Look, on the tours business, the passengers are down, profits are stable. The general strategy is for the holidays business to focus on those areas where we can, in the medium and long term, differentiate. They tend to be rigorous markets, they tend to be the escorted tours, solo, special interest, et cetera. In the long-term, that's where the margins will hold up. So our overall absolute margin's been maintained despite the drop in passenger numbers. And that's where we'll be spending most of our future investment in terms of growing those specific segments, where we can be more differentiated and we can grow with those high margins.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Thanks, Robin. Mark?

A - Mark Watkins {BIO 20149761 <GO>}

So on Emerging Businesses, there's actually two elements to it and the growth is pretty much split 50/50. The first is Saga Personal Finance. So we just had consistent growth within that business. And the second is probably a little-known business within the Saga family called MetroMail, which does all of our in-house printing, but it's not a big part of the group, but it's going through a shift from focusing purely on Saga volumes to some third-party volumes as well. So that business is going through a bit of a transition. It's very small. It's not a significant business within the Saga group at all, but it does drive that variance.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

There's a third part to that.

A - Gary Duggan {BIO 18331803 <GO>}

Yeah. So in terms of the customer acquisition, I mean, I think it goes to the point I made earlier on that we operate in a dynamic market. At the moment, there's no reason to assume given the lifetime values that we're seeing on the business are aligned at the moment that we shouldn't kind of continue with the momentum that we've built up over the last kind of nine months or so.

So both clearly depends on how the market changes and whether we shift some of that emphasis, from one product to another, or whether we feel - if there's a point at which we feel that we don't want to drive that growth for whatever reason, then we might make a different decision. Important to all of that is also clearly continuing to drive operational efficiency into our business, which enables us to generate those lifetime values making sure that we're delivering good quality growth.

Q - Ben Cohen {BIO 1541726 <GO>}

Thank you. Ben Cohen at Investec. Two things, please. Firstly, just to be clear in terms of the investments and the cost reduction that we see the benefit in the first half, if you could just be clear as to what is actually being spent, where it's being spent and where we see those cost benefit so we can get a sense in terms of what you expect to come through incrementally in the second half.

And my second question was on persistency, the increase that you've seen. I just wonder if you could give any sensitivity around the sort of profitability of the business as to changing rates of persistency and, indeed, where you would see or where you would hope that persistency level to get? Thank you.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Mark, then Gary. Are you happy with that, Mark, or I can field it?

A - Mark Watkins {BIO 20149761 <GO>}

No, no. That's fine. I guess we started the year with the intention of spending the £10 million over the year, and we're halfway through the year and we're broadly halfway done with the investment. As we said, half of it was going into the broking business, half of it into the Travel business. The broking business is going to be front-loaded into the first half and the Travel business was going to be into the second half of the year.

In terms of the cost base, we've summarized it on the front page of the press release, but our costs are down by £6 million from the previous half year. So you can get a sense of the £10 million of cost savings and how much have gone into the run rate cost base for this half, and you would expect that to continue into the second.

A - Gary Duggan {BIO 18331803 <GO>}

In terms of persistency, clearly, everybody was impacted kind of halfway through last year. As you know, we had a strong first half. Everyone was impacted by the renewal transparency changes that the FCA kind of put through or we put through at the behest of the FCA. Since then, as you can see, our persistency numbers have rebounded back to 69.9% across the products.

The second half is always typically slightly – our industry is towards the end of the year. People typically try and chase a bit of volume. So we'll see what happens this year, but that has happened historically in the industry in the past. But there's no reason to assume that there's going to be significant shift in that persistency any time soon.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

You still have a question?

(00:50:27) UBS. You mentioned the competitive landscape in the home and motor market. So when we think about your broking earnings, are these sort of more akin to a pure broker or an underwriter?

A - Gary Duggan {BIO 18331803 <GO>}

Sorry, can you ask that again?

Q - Lance Henry Batchelor {BIO 6884486 <GO>}

Yeah, sure. So you mentioned that your broking is sensitive to the sort of competitive landscape in motor and home. So when we think about your earnings as being sort of broking earnings, are these more similar to sort of a pure broker or sort of most of them are sort of like a normal motor underwriter?

A - Mark Watkins {BIO 20149761 <GO>}

Yeah. More similar to a pure broker, really. It's brokerage. And that's, I supposed, clearly where the power of this business is having in-house underwriter so you're at a – you combine the two together then it's more akin to what you might call it kind of a direct play with an underwriter within it. But at the moment we split those, so you're absolutely you're looking at pure broker kind of results.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

(00:51:27) the P&L, I am going to answer that. So, Rob operates as an underwriter independently. He happens to sit the other underwriters that are there. And then Gary has got his P&L. So, in that sense, he is a pure-play broker.

Andreas?

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

Thank you. Yeah, just two follow-up questions, please. One, what is the target return AICL is writing at currently, and is that lower or higher than last year? And the second question is we think about the motor broking business and the fact that it's lowered its net risk price from the panel. Is that the beginning of an ongoing improvement in that net risk price or was this just a one-off given where the cycle is?

A - Lance Henry Batchelor {BIO 6884486 <GO>}

So Rob, you're free to answer that question. We do publish that number.

A - Robert Allan {BIO 7510183 <GO>}

Yes. So, we do publish it. Well, that's in line – we've kept our target returns in line with prior periods and the core one is driven by our target return on Saga motor and that's 3% of net premium. 3% of net premium.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

3% of net and that hasn't changed for many, many years.

A - Robert Allan {BIO 7510183 <GO>}

Yeah.

A - Mark Watkins {BIO 20149761 <GO>}

In terms of the net rates, I'd like to hope that this is the beginning of a trend of improving that rates from the insurers. Certainly, the conversation we have with them, the data that we're providing to them is proving to be extremely valuable. It's the feedback that we've had from them. We are continuing to work on how we can provide even more kind of valuable information to them as we move into the future.

As we expand the group and as we launch Possibilities and drive membership data out of the Possibilities program that insurers a very excited at the prospect. We've been able to get access to some of the kind of the – some of the information from – that we'll be able to glean from members of the organization. So, that allows us to provide them with access to some data that they probably can't get from a number of other players who are kind of pure insurance brokerage businesses.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Any further question? If not, I will wrap it there. Thank you very, very much everybody for your attention. I'm happy to take questions afterwards. Otherwise, we'll see some of you on our roadshow on the next couple of weeks. Many thanks. Thanks, team.