S1 2019 Earnings Call

Company Participants

- Adam Westwood, CFO and Chief Risk Officer
- Geoffrey Carter, CEO
- James Ockenden, Chief Actuary
- Unidentified Speaker

Other Participants

- Analyst
- Ben Thomas
- Ming Zhu

Presentation

Geoffrey Carter {BIO 20386629 <GO>}

Okay. I think we're live and good to go. Good morning, everyone. A very warm welcome to those people in the room and on the phone. I think it's probably our 4th or 5th version is now. We're gradually getting the hang of what we have to do here now.

Firstly, a bit of housekeeping on who's presenting. Myself, Geoff Carter, and Adam will be presenting; and Trevor Webb, the Claims Director; and James Ockenden, the Chief Actuary. We're here to take any questions at the end.

A quick look at the agenda. The sharp-eyed amongst you will notice this looks very similar to the full year presentation, and our approach really is to update our thoughts from that point. So a quick look through the highlights -- the financial highlights, a look at the market context. We'll probably spend some time talking about our view on where the market is. A very brief reminder of our strategy, and then our thoughts on the summary and outlook from the things we said as we've gone through.

So financial highlights. First off, we're pleased with these results, very much in line with our hope and expectations at this point. Our continued focus is absolutely on profitability, and it's not on managing volume, as you know, we see volume as an output, not a target.

Key points here. Pretty good loss ratio performance, 48%. Our combined ratio, exactly where we'd hoped at around 72%, and our expense ratio is in line with plan. While the ratio is up a little bit, we're not really spending more. It's more that the top line's come down a bit.

We're very pleased and perhaps slightly surprised that our year-on-year premium position is in line with the AGM statement. We've been putting through pretty extensive price increases that we'll talk about later. So I wouldn't have been surprised to have seen a somewhat further down on premium than the position we're reporting today. And over the last few weeks, actually, we've seen maybe some encouraging signs on trading over the last -- the last few weeks as well.

We're continuing to cover claims inflation. We'll talk later about where we see the claims inflation projections. So whilst the fact that our premium is staying consistent suggest to us, that comprises on starting to put through some price increase, maybe at a 0.5% a month, along those lines, and that would be consistent

(technical difficulty)

What does this mean in terms of dividend? We're very pleased to declare an interim dividend of 4.7p a share. Just for clarity, looking at the year-on-year comparison, last year was an exceptional interim dividend because we haven't paid anything on the full year coming out of the IPO.

Very good solvency coverage, 200% predividend, 181% post our interim dividend payment. And I guess I'm also pleased to say that the impact of the Ogden rate discount is pretty much immaterial to our results.

On the operational highlights. This is intentionally quite a short list. Our focus continues to be on 3 things: to understand and cover claims inflation, continue in constant evolution of our core processes in rating and claims; and at the moment, a lot of focus on understanding the potential impacts in the whiplash reforms, of which we'll go into much more detail later.

We're actually reviewing our investment management approach, we're not going to do anything wildly adventurous here. We are looking at whether we can squeeze a little bit more out on the investment return without a material impact on our capital or risk.

The Direct Brand policy is developing very nicely, I would say. It's been rolled out onto the remainder of the price comparison websites and started to generate some quite interesting volume. We can see one's driving the boat. It's not changing the game yet, but it's doing exactly as we would hope. The initial performance from a claims perspective looks absolutely fine on that, as well.

I guess when -- not big on strategy statements in Sabre really, but although I would share one of our sort of watchwords to the line at the bottom of this slide: to do less, and obsess. Do less and obsess. What that really means is being as expert and focused as we can, on the things that really matter and not being distracted by exciting-looking or shiny new toys. We view this obsessive focus on the things that matter, is really key to our past and future success. This is an intentionally quite a short kind of focus list on operational highlights.

On that note, I will now hand over to someone who's really been accused of being shiny or exciting, and Adam will go through the finances.

Adam Westwood {BIO 20481660 <GO>}

Thanks, Geoff. Well, it says, "Thanks, Geoff" on here. I'm not sure, yet. Good morning, everyone. Let's take a look at some of those numbers in a little more detail.

So as ever, our sources of income and our cost base are incredibly straightforward. We continue to generate the majority of our income through written premium, with some additional income through fees, primarily income on the direct account.

Having maintained pricing discipline through 2019, and being unafraid to increase prices to conserve our margins in the soft market, we've naturally seen some decline in our premium against the same period in 2018. As such, our GWP is around 7% down year-on-year. This has had a knock-on effect on earned premium, which is down by around 2% against the same period in 2018, as the lower premium starts to run through.

Our combined ratio has come in at 71.5% for the period, a slight increase over 2018, but well below our long-run mid-70s target. Our investment strategy was unchanged in half one 2019 and as such, in-period investment return is driven by market value movements on U.K. Government bonds.

The result of all this is our profit after tax of GBP24.7 million for the period. And as Geoff mentioned, we're declaring an interim dividend of 4.7p per share, where we applied this strategy, which you did by able [ph] IPO, which states that our interim dividend will be equal to 1/3 of the prior year's ordinary dividend.

And just again to note, last year's interim dividend was unique, in that we've set out at IPO, within that instance, only pay a larger interim dividend due to not having paid a full year in respect to 2017.

So through our solvency coverage, that continues to benefit from strong organic growth in capital, set against a pretty stable capital requirement. The interim dividend will of course reduce the available capital a little but will remain well above our preferred operating of 140% to 160% range and there's a bit more on the capital management later.

So taking a look at our underwriting performance in a little more detail. We can see that the uptick in combined ratio was impacted by a 1.2% increase in expense ratio against the full year 2018 with a very consistent loss ratio. On an absolute basis, annualized costs have been pretty consistent year-on-year but as net earned premium's low, the expense ratio has increased. This is in part due to an increased level of fixed cost post-IPO, although they still form a relatively small part of our overall cost base.

As in previous periods, the loss ratio consists of a current year charge, offset against run-off releases from prior accident years. We always expect the current year loss ratios to be volatile, particularly at the half year stage. And along with the level of prudence attached to open reserves, the current year loss ratio, at this point, is generally not fully reflective of the expected outrun for the 2019 accident year.

The impact of higher current year loss ratio has, as usual, been somewhat countered by the level of prior year reserve movements during 2019 strength. The combined impact of the strength of prior year reserve movements and current year trading lead us to maintain our current outlook, as to the combined ratio performance for 2019, which we still expect to come in between the 2018 full year combined ratio and the long-run mid-70s target.

Our investment portfolio remains almost entirely invested in U.K. Government bonds, all held at market value through the P&L.

This slide shows the current mix of gilts and cash. While we've no firm plans to change the portfolio in the current months, we are -- as Geoff mentioned, reviewing our investment strategy. We're considering engaging an asset manager to allow us the flexibility to increase our yield through carefully considered tweaks to the portfolio, whilst maintaining our overall conservative philosophy.

So on to capital. Sabre is still all about generating capital organically, through careful and consistent underwriting. We've continued to do so through 2019, as such, as we mentioned, we've announced an interim dividend of 4.7p per share, clearly sticking to our interim dividend policy these considerable excess capital in the group.

As we did in respect to 2018, we'll consider how best to utilize any excess capital year-end generally, of course, we aim to return excess capital to shareholders by way of dividends. As previously communicated, the level of excess capital would help support an attractive special dividend at year-end.

And a quick reminder on our approach to capital management. Our overall approach remains prudent, which means we continue to hold a minimum capital level of 140% of our capital requirement. In targeting a mid-70s combined ratio, we can be comfortable that on average, every policy we write increases our capital surplus.

While we've undertaken minimal capital expenditure in recent years, holding excess capital above the floor allows us to do so, if and when required. Our overriding view of capital remains to retain within the business, only what we need to support our underwriting activities, with an appropriate buffer to protect the business from any reasonably foreseeable adverse capital shocks. We've set a preferred operating range above our capital flow, 160%, which facilitates more stable returns of capital to investors by supporting dividends during cycle downturns or periods of rapid growth.

As such, we aim to return excess capital to our shareholders through a steady flow of dividends. This was demonstrated in 2018, where we paid a special dividend, returning all of our earnings for the year to shareholders and still retained capital at the top of our preferred operating range, as you can see from the graph.

In 2019, we've already built up an excess of capital during the year. And on that note, I'll hand back to Geoff for an update on our strategy in the market.

Geoffrey Carter {BIO 20386629 <GO>}

Thanks, Adam. So let's start with perhaps one of the more controversial slides in this pack, which is our view of claims inflation.

At the full year, we spoke about our view being 6% to 7%, we've now moved that on to 7% to 8%. That really means we've moved from a realistic view of high 6s to low 7s at this point. Now why do we say that? This slide looks, again very similar to the slide we showed at the year-end, bent metal costs, being a key driver of inflation. Theft, still an epidemic, I would say, in certain parts of the country, PI frequency is flat as severity continues to inflate.

Within the bent metal, we've highlighted credit higher and credit repair. We think these 2 things are inflating significantly, and Trevor maybe -- can talk more about this in the Q&A at the end.

We think as we get towards the whiplash reforms, you may see this becoming a bigger factor, even from the position today, which we'll discuss later.

We can't see any reason to reduce our view from 7% must say, if anything, it feels a little on the light size on what we see as current market inflation, we don't think we're particularly outstep with any claim spend that will be being suffered in the market. Our portfolio is not that different that our inflation figures should look massively different.

We're fully encouraged that many of our competitors are now talking up. Claims inflation figures slightly over the last year or so -- so it feels like there is more of a market acknowledgment that claims inflation exist, and there seems to be -- from our point of view, that's encouraging. It probably helps our growth plans in the medium term.

There's some interesting stats on the ABI that's came out yesterday, I think, which is theft claims are up 22% year-on-year, for the first 3 months and a home office that -- this has been a 50% increase in theft claims over the last 5 years. As we know, a lot of this is driven by key-less entry, those stats don't surprise us at all and are very much in line with our own analysis. So we very definitely see inflation up and around that 7 maybe-slightly-higher percent. Premium inflation, on the other hand, our view is that rates are now gently increasing in the market.

As we've discussed earlier, our premium shortfall year-on-year has been pretty consistent over the last few months. That suggest to us that given we're taking pretty extensive pricing action monthly to cover inflation rates in the market must be moving by enough -- to allow us to maintain our competitive position.

So the delta is our -- or the non-moving delta is the main way, we would assess that premium inflation, backed up by feedback from our insurance broker colleagues, who would also talk about inconsistent price increases going through monthly, but a definite trend upwards at this point.

And Ogden might have an impact here. Again, initial feedback from some of our broker partners is there's perhaps an initial 0.5 point impact on competitive pricing from the Ogden change coming through a different level than perhaps expected, we'll talk about that more in a minute.

I guess importantly, while we think the market might be starting to cover ongoing claims inflation, we don't yet see evidence of the jaws closing, but they're probably being generated over the last 12 to 18 months between claims and premium inflation. So I guess my view is the jaws are not opening any further, but I'm not sure there's much evidence that they're closing out at this stage.

You may recall this slide, from the full year but we said our view is the market was pretty well balanced, pretty finely balanced between premium inflation and deflation factors over the next few months. We have updated our thoughts on this. So the shape of the seesaw -- try saying that quickly, I have to tell you. We've had quite some debate on this, I would say, which way they should point this seesaw. Adam tells me he's got a Physics degree and I haven't, and this is the way it should point.

What we're really saying here is, the market is now tilted in favor of rate increases. So if we just talk through a few of the drivers of that. The first one is continued claims inflation, that should be, all other things being equal, inflation on price. That should logically lead to -- compared to the margin squeeze, we think that's an increased likelihood. I am increasingly pessimistic about the impact of whiplash reforms, which we'll discuss in a minute.

The loyal, legal response to those performance, we've been concerned about for a while, and we'll talk about that more in a minute. The FCA pricing review is still due out the end of the summer and the open rate change has clearly not been helpful for people's pricing assumptions. So that may drive more propensity to increase prices.

On the other side, whiplash reforms clearly -- they're going to generate the benefit that had been calculated, new MGAs that are launched, don't seem to have a material impact on our business.

Overall, our strategy is exactly the same. We'll continue to price at the mid-70s combined ratio, we'll reflect any changes as they emerge and we won't speculate.

To unpack a few of those inflation factors. The FCA review is still anticipated late summer, there's quite a lot stakeholders around this review. My view is the FCA are looking to a sensible, commercial, but a customer-focused course through this. There are some strong stakeholders like the CMA, some of the consumer groups and I think the FCA are -- going to be looking over their shoulder at recommendation for this. Some of the government messages suggest an expectation of fairly firm evidence, there was a no, a month or so ago talking about a need to focus on lead loyalty penalty across a range of industries.

As a reminder, Sabre doesn't utilize any dual pricing or loyalty penalty type techniques in our business. On premium inflation, it does rule out the markets on hardening views on claims assumptions. So, we do not need to take any step change on rates and we already told you, we covered inflation as we've gone through the last 18 months. So any widespread rate increase should work to our benefit.

How it looks to revised Ogden discount rate, I suppose, given the recent announcement to restate, our approach is to base on the basis of facts, not speculation. As a result, a very modest impact on our financial results for this period, GBP300,000 benefit, as we haven't moved away from the 0.75% position in rating or reserving.

I think the key thing here is that while there's been a lot of talk about the impacts on reserves, there may have been less talk about the impacts on price and assumptions. Logically, some competitors will have had a similar assumption on pricing and reserving. It may now be as a need to increase the pricing assumption in the market as well in some parts of the market.

On the Civil Liability Act, the whiplash reforms, I think it's worth spending a few minutes on this given the importance we see on this -- on pricing over the next few months. As a reminder of the key bits of the reforms, significant reduced tariff-based damages, small claims limit increased from GBP1,000 to GBP5,000, no premedical offers, a new portal to be utilized by litigants in person and vulnerable claimants and infants excluded from the reforms. If you calculate that -- all that through, that should be worth something like a GBP35 policy benefit.

At the start of the year, I described that we're driving through the fog, we didn't really know what's ahead of us. It feels like that fog is starting to lift. But as probably highlighted, the road's got a number of dangerous blind bends in it and we don't really know what's around the other side of them. So I'll spend a few minutes talking about why we think that.

On the implementation side, the target implementation is still looked -- still scheduled for April 2020 and the MIB, the Motor Insurers' Bureau are doing a really good job in trying to build that portal is my view. But there is a severe lack of clarity on many of the issues that support those reforms, there's a lack of clarity on some of the rules and in our view, a continued risk that reforms aren't going to deliver anywhere near the forecast savings. There could be an actual impact anywhere between a small saving and potentially inflationary position.

Now why do we say that? There's still a risk on two halves. One is on the implementation side. One is on the behavior side. On the implementation side, I'm no expert on politics but a change of government is unlikely to see these reforms follow through, being my interpretation.

The rules and policy decisions haven't yet emerged for this legislation, so the IT builders having to be built on assumptions of what the rules will look like. The testing of the portal is going to be tight. I think test is due to start around October, November, with this due to go live in April, that doesn't leave much time to test such a significant piece of IT change.

And there's some more techie bits and those are the ones we'll be going to now, but I think there's some significant risk on the implementation side, really more interesting is the change to behaviors. I think there's a significant chance that there'll be a change in behaviors by certain of the claims management companies. It's quite possible, if not likely, there'll be an emergence of new representation models, including unregulated type claims management companies. My view is you could see some pretty unpleasant creatures crawling out from under the rocks once these reforms are known, once we know what the rules are, you can work on how to work around them. So we are wary of what might happen on behaviors here.

Linked to that as a customer detriment as the fees might not be proportionate to the services being charged. We're almost certain claims stacking will occur. So to get out of the GBP5,000 small claims limit, adding together a personal injury claim, a property damage claim, a credit hire claim and a credit repair claim will be a really good way of busting out the top of the new GBP5,000 limit.

I've been saying for a while, I had a fear of a shopping list being created, which a Sabre customer would -- might like to claim for whiplash, PTSD, here is that place, what might it be? It feels to me that, that's increasingly likely to come through and I think there's a real difficult balance between ensuring the customers, I would be paying for all the things that generally -- should be able to claim for and not allowing people to see a shopping list and just ticking every box on there. So that's going to be really interesting to see how that develops. That might reduce or reverse some of the previous claims frequency that was there.

The last point is a really interesting one. As part of these reforms, there's a dispute resolution process put in place. The cost of that dispute resolution process are entirely borne by the compensator or the insurer.

So as Trevor would describe it, this is a no-risk pump for people to put in a speculative claim. So we could see some significant behavioral changes come through on this. But also any of those will happen, but we're saying there's reason to be cautious around all of these things.

And probably a key thing for me is, it's going to take some time for those behaviors to emerge. This is not reform that's going to go live on the 1st of April, and by the 5th of April, we know what the impact is. This could take many months for the behaviors and the impacts on claims to emerge. So our view would -- to be cautious on this until we get confidence in what the new world looks like.

Okay. What's our approach been year-to-date? It's pretty simple really. We're pricing on things we can see, we're planning the ball as it lies and the way it lies at the moment, as we have very high claims inflation, and we are pricing to address that. Our continued focus, being a bit of a scratch record here is that we'll continue to look to pricing in our mid- 70s range.

Reinsurance, a brief word on this. As you know, we have a 1/7 renewal. So that item was quite good with Ogden but we expected that. We were pretty pleased to renew on an almost identical panel of insurers and identical terms in return for a small discount on, our reinsurance rate. Reinsurers are probably as focused on individual portfolio performance as they are on the Ogden rate. Having said that, some reinsurers will have a more optimistic Ogden assumption so there might be some pressure on reinsurance pricing next year, which will start to reflect as we go through the end of this year.

Our strategy hasn't and won't change at all, but we're going to maintain a wide underwriting footprint. We'll continue to develop our nonstandard positioning. We're going to continue on the strongly leading focus on mid-70s combined operating target approach. We're going to continue to look to generate cash and return that to investors. Our base dividend payment doesn't change, 70% and a 140% to 160% solvency range. And we believe very strongly that there'll be premium growth across the cycle, but at the right time.

Our scenarios, again we put this slide up at the full year. There's no change in our thinking here, I would say either our cautious approach is correct, in which case, the market will move towards us and perhaps Ogden claims inflation assumptions of some signs. This has happened in some places, which will allow us to naturally grow as we become more competitive or our data view is too cautious, which allow us to reduce prices in which case out stimulate growth at that point. Either way, our priorities are exactly the same, to make sure we hit the mid-70s combined.

Summary. We're very focused on maintaining our existing and well-established strategy. We're going continue -- in fact, our approach to the year-on-year reduction improvement has been to increase our pricing, as we go through and to accelerate the price increases. As we've said before, volume is an output, not a target for us, the target is profitability. We're probably slightly better off with premium than we expected, but we'll continue to push price wherever that premium level goes.

So it feels like the fog is lifting a bit in terms of where the market is going but the road looks pretty dangerous. There's lots of blind bends, there's lots of potholes that we need to stay at through. So we're going to maintain a cautious approach, which leads to an outlook.

Premium out turn for the year, I broadly don't know. In terms of what the market does, it's not unreasonable at this point for saying if the market doesn't change at all, it will be similar to the half year position. We're very much on track to deliver existing full year guidance of a combined ratio better on our long-term target and generate strong capital to pay an attractive dividend. To reiterate from the full year, we're very committed and happy to use our capital range to support the paramount dividend in certain market sectors, that could be shrinkage, it could be growth. The capital range is there to be used, not just to be looked at. At having covered claims inflation, we are well positioned for growth as the market turns.

So overall, I think we're feeling reasonably cheaper. At the moment I would say, a no, we don't see any fires that we're not preempted. And we feel okay, but the future despite feels good.

And at that point, I'm very happy to take any questions on anything at all. I've been straightening, why do I suspect a claims inflation question?

Questions And Answers

A - Geoffrey Carter {BIO 20386629 <GO>}

(Question And Answer)

Q - Analyst

(inaudible) And probably strong, you're attesting to this 7% to 8% higher inflation clearly higher than what the markets -- clearly higher than what the peers have been speaking about. And now that we're seeing some signs of hardening of pricing, I don't know, maybe it's too early to call it hardening, but where do you think the market is right now in closing those jaws [ph]? Because I think you're saying that they haven't changed since that since the bottom of the market, they haven't changed. How should we think about it?

A - Geoffrey Carter {BIO 20386629 <GO>}

The way do I think about it, I think about the jaws not particularly closing at this point, but the jaws are not getting any wider. So if I look at the market, it feels to me like an inflationary increase going through by many competitors on a monthly basis. Inflation, you can get a big 0.5%, 0.6% a month. That's sort of a view of what was going on. It could be as a combination of that all other underwriting action. So it could be people are moving away from our competitive footprint, that maybe their question for the less young drivers, less nonstandard risks. The feedback I get from some of our broker partners is it feels like there is right going on about that 0.5%, 0.6%. Not many, if any, people have taken big action to close out the jaws there.

Q - Analyst

And what level of jaws do you think is there at the moment?

A - Geoffrey Carter {BIO 20386629 <GO>}

Difficult question to ask. I mean if we can put a few concentration, which drains at 7%, 8% over the last 1.5 years and now these haven't, you could have 6%, at this point, jaws maybe.

Q - Analyst

A couple of questions, please. It's been a surprise to see the accident year loss ratio increased from 59% to 64%, given what you said about moving rates up in line with claims inflation, I might have been expecting that to be flat year-on-year. So perhaps you could just talk a bit about that, please, in terms of what the moving parts within that might be? And secondly, it sounds as though you think all is possible that the market could change quite significantly in the next 12 to 18 months. I was wondering if you could just give us a feel for what capacity you've got in the business to support increased policy count. Are there any constraints around that perhaps in the claims department?

A - Geoffrey Carter {BIO 20386629 <GO>}

Yes, sure. Passively, answer that, and then reverse order then, James, you can pick up with Trevor the accident year loss ratio. I think in terms of capacity, we've been deliberately not straining cast off numbers at all as we've written less premium. So we have, I think, probably 10% capacity in the claims department, Trevor, the growth for that and the strain as all.

Important to remember, we outsource, well, we outsourced the EBIT already, for the new business now and mostly brokers, which is still 80% of our business. The broker handle sales and service. So we have no capacity limitations there. On the direct side, we outsource the customer service part of that. So the broker, whether pretty heavy staff, pretty big business, so they can accommodate those being any reasonable increase in sales.

And on the claim side to first notification of loss, we outsource that to innovation group, motor care. But again, we're a big business and accommodate -- can accommodate increases. So that really leaves the technical claims department as being a bit more careful on it. And I think for the realistically 10% to 15% where our view is, we run a capacity of circa 10%, but we're continuing to invest in our own technology as well to increase productivity.

A - Adam Westwood {BIO 20481660 <GO>}

Yes. So, for example, software -- for example, software robots should allow us to take on more work without an increase in headcount. And, James, what's about attritional loss ratio?

A - James Ockenden {BIO 20485926 <GO>}

Sure. So yes, I think it's a really good point and net, I'm talk about the current loss ratio. So I think the first thing I'd say is when we view inflation, we view it as a long-run claims inflation, so not saying individual year. We're looking -- we take -- we look all the dates over the several years to the last 2 to 3 years, and that's our view of where we believe claims inflations at. We operate our pricing within a range, and so we will see periods where the claims inflation is slightly lower than that long-run average inflation slightly higher.

I think, obviously, this is a cyclical market. And I think we're seeing that the inflation has pretty been a little bit higher than that in the last 12 months, but again, we're addressing our pricing over the long run. And so we work within that range, and so that's why the kind of action here was -- is slightly higher than it would have versus the last year. Basically, it is just part of the cycle.

Q - Analyst

So following on from the attritional loss ratio question on the reserve releases, obviously, that's offset the sort of attritional loss ratio headwind. Is there anything exceptional, which should reflect it and flagging? And then also on -- you talked about sort of seeing different levels of competition in certain areas of the market. Can you give us a little bit more detail on the areas of the market where you're seeing yourselves become more or less competitive? That would be really useful.

A - Geoffrey Carter {BIO 20386629 <GO>}

Okay. I mean, I guess, the first on reserve releases -- and James, you can chip in. I think there's been no change to our reserving philosophy at all or indeed our case reserving philosophy. So this is really a natural flow-through of the claims development. We certainly haven't turned James upside down and shaken if there's any changes out of his pockets. James, if you want to sort of answer that?

A - James Ockenden {BIO 20485926 <GO>}

No, I think the pricing of philosophy is exactly the same. It's -- I think we've continued to see good guys from the off -- more consistency of the triangles but really, it is just much at the same. So there's nothing that one-off massive release that we're kind of seeing. I think it's worth noting on reserves that -- and pricing, that the third-party damage inflation, which has obviously, slightly shorter tail. But actually, damage inflation is now bigger, a high proportion of claims has been in the injury, which is the first time in quite for many years. So that's been the case. So I think this level of inflation that we are seeing, I mean, it's real. We're seeing it within the market is seeing it, but it's really changing the dynamic.

A - Geoffrey Carter {BIO 20386629 <GO>}

And, Trevor, on the case reserves? There's been no difference, so I think we've had some good results on some large claims?

A - Unidentified Speaker

Yes. So we've enjoyed strong case reserve releases year-to-date. But absolutely, we've not changed anything in the way that we do it, so it's consistent. I think sort of really need to look reserve releases across the full year as well there. So there is some cycles in there.

A - Geoffrey Carter {BIO 20386629 <GO>}

I think on your second question is that where we are becoming more or less competitive, I mean, I think our average premium has increased a bit over the half year. So that would suggest, logically, we may be writing slightly less mass market, slightly more in the higher average premium. And -- which is exactly what we expect to happen in this point of the cycle. Not particularly, Mark, there's no areas we're suddenly dropped out the market completely.

A - James Ockenden {BIO 20485926 <GO>}

Right, there's a lot of moving parts here, things like, depending on how your pricing broke will depend on if you were pricing at above 0 and you're going to have prices up potentially more young drivers. And so there's actually a lot of moving parts within that. And we just continue to refine our rates. We've implemented the new rating factor this year. We're trying to get something else over the line, which we think is pretty strong. But yes, we're just reacting to what we're seeing in terms of being able to better define the -- and understand the risk and, hence, price accurately.

A - Unidentified Speaker

Pricing in any market share. There's nothing in the -- through our overview on that one.

Q - Ming Zhu {BIO 17001429 <GO>}

Ming Zhu from Panmure Gordon. Two questions, please. You have one slide, sorry, I don't have that page number on the slide, it says approach to capital management. And exactly, words here is at year-end, consider distribution of surplus capital beyond top of SCR range of 160%. Could you please clarify this a bit more, please?

And my second question is given your approach to your pricing and what you currently are seeing in both of the market changes given that ABI yesterday and your claims inflation. Is there any guidance you'll be able to give for the top line number for next year, please?

A - Geoffrey Carter {BIO 20386629 <GO>}

Okay. Passively, I'll start on both of those, then Adam, you can -- or James, you can pick up. Our, first, capital management, I think, is fairly simple, really. We got the 140% to 160% range. We're really clear at the year-end that we're very happy to use that capital range. We think what our shareholders want is a sustainable paramount dividend, and the capital range gives us the ability for some periods to sustain that paramount dividend by each and a little bit into that capital range. And that's exactly what we have prepared, and we're more than happy to do at certain points in the cycle. I don't know what to say Adam can say.

A - Adam Westwood {BIO 20481660 <GO>}

No. That's right. I mean, really, we talked about a capital flow at 140%. And I'm not saying we want to get too close to that at this point, but we're certainly happy to operate somewhere between 140% and 160%. But bear in mind, I suppose that when we say operate, what we really mean is we would pay a dividend down to a point within that range, but the reality is by the time we do that because we generate so much capital organically, we're probably operating some way north of that. And we're at 180% now, for example. So yes, we would pay down to within that range in order to support the dividend the right things to do year-end.

A - Geoffrey Carter {BIO 20386629 <GO>}

Yes. And I think on the top line projections for next year, I think, and I'll stick to my line, which is sort of volume is an output, not a target for us. Volume will be what volume will be once we've taken the appropriate price and actions to hit our profit targets.

A - James Ockenden {BIO 20485926 <GO>}

And if I can add to that, Geoff, yes. And it takes one person in the market to price irrationally, which will impact our top line. So we have to focus on making sure our rates are right, and we are pricing according to the relative elasticity within the market, and therefore, be able to optimize our profit.

Q - Ben Thomas {BIO 17330110 <GO>}

I know you've talked in some detail in terms of the inflationary trends that you see and clearly talking about a higher rate than at the start of the year. I just wonder what confidence you would have in 6 months' time whenever you next address as to whether you would see that rate in inflation worsening versus improving. Are -- do you see some things in here which are sort of maybe need to run through the system? I don't know, maybe it's the theft -- the threat, the theft trends or whatever it is? Or as we come through, would you expect it to improve?

A - Geoffrey Carter {BIO 20386629 <GO>}

So I guess on theft, hopefully, isn't bad -- as bad as it's going to get, although we have hotels left in London to stay in anyway. So I think theft is clearly at this low point. There's -- I think the reason we highlighted whiplash reforms is that we think we've thought through what could happen, but we don't know what will happen. Now it could be the intentional whiplash reforms with the deflationary. We haven't taken that in our pricing. And we generally don't know where that's going to be. We can see the rest of it not delivering the full benefit of that range. Where it's going to go? We genuinely don't know. So to use my phrase, we'll be playing the balls as it lies and we'll use the data that's in front of us.

A - Unidentified Speaker

Yes. I think I would add in terms of inflations, we've seen significant movement yesterday in FX rates. So that in itself will be having an inflationary impact on our repair costs, if that trend continues.

A - Geoffrey Carter {BIO 20386629 <GO>}

And, Trevor, parts of things we are doing with our supply network in the event of a no-deal Brexit?

A - Unidentified Speaker

Yes. So we're readying our suppliers, and we've been ready with our supplier. But what we want to do is we see that there's going to be reduced capacity in the repair network, so we want to make ourselves easy to deal with. So that we can actually, whilst we've got a huge volume, but with our repair network partner, we can make sure that we've got the available capacity that we need.

One of the issues that we're facing, particularly on third-party repairs is the credit higher side. And obviously, that's -- there where two factors are there, how much you pay a day to rent a vehicle, but more importantly, how long it takes to repair the car. So how long that vehicle has been vented for. So anything we can do to compress that repair period, we see is helping us or assisting us in managing those higher claims. Now at the moment, the third-party inflation is really a blend of three things. One is the absolute repair cost; two is the further movement that we've seen between ensure repair models and credit repair models, so year-on-year, there's an increase in credit repair; and then the impact of more complex repairs in repair period, pushing our credit high costs.

A - Geoffrey Carter {BIO 20386629 <GO>}

Do we have anything else?

Q - Analyst

Just one follow-up. On the claims inflation, I'm just wondering some of the drivers that you speak about, the theft or the credit higher cost. In my mind, can -- to some parts relates to the more niche component of your portfolio, like the expensive cars, et cetera. So I'm just wondering how much you think the rest of the market is experiencing the same 7% to 8% claims inflation versus what's specific to you.

A - Geoffrey Carter {BIO 20386629 <GO>}

Yes. I mean, perhaps, I've felt more nervous about at the year-end than I do now. If you look at the ABI stats, yes, they were 1% of the market. So we're not going to be the biggest move with the dial on that. And the ABI is talking about theft clams 23% up. So I don't think our -- we've caught at 25%, ABI at 22%, doesn't rule out, we're miles away through an industry view here so -- or even a view industry facts at that point.

A - Adam Westwood {BIO 20481660 <GO>}

And I will add to that in relation to the third-party costs where people were hitting and then people everybody's hitting. So that's not to do with the mix of our policyholders.

A - James Ockenden {BIO 20485926 <GO>}

Yes. I would say 70% or 80%. So the remainder is the third-party costs and now we can control all the equations here.

A - Geoffrey Carter {BIO 20386629 <GO>}

I think to highlight in that, James, is because it's a point that I think gets missed sometimes. Was it, I think, 20%, you said it was, roughly?

A - James Ockenden {BIO 20485926 <GO>}

Yes roughly.

A - Geoffrey Carter {BIO 20386629 <GO>}

Yes.

Q - Analyst

You're taking quite a lot more bearish view than probably what the market would be taking. And there's also quite a lot of government pressure to pass on, I mean, the policy savings to customers. So is it fair to say that we're probably not expecting growth in 2020 if you're going to be taking a more bearish view on this? And then also on Ogden, with the rate going sort of below expectations, is it your view that claims will now start settling in line with the sort if minus 0.25% rate? Or are we still expecting that claims will settle at a higher implied rate as we saw it when the rate went to minus 0.75%?

A - Geoffrey Carter {BIO 20386629 <GO>}

Yes. Okay. Yes. A good question. I think there's a couple of it, sir. In terms of the driver of the inflation obviously, these whiplash reforms are first smoothened. The driver of inflation has now moved to a property damage. So on a static state or I would think we would have seen a deflationary impact. In any event, that might be neutralized by the property damage claims. I'm not sure we are -- I think we've been -- we all being a bit gloomy on the whiplash reforms, but I think if you talk to other people in the market, where we involved in the same working parties other people are, the fact that we don't know what the rules are is noting to anybody else that nobody knows what the rules are.

I think the MIB are doing a great job trying to build their system. We've been pretty closely involved for the last 6 weeks, couple of months now, Trevor? But they are building a bit of a vacuum still from the former rules. So I don't think our view is any -- their view as facts. We'll say, "Watch the other people view, we'll be view it."

I think the important thing is on the risks side of the -- on the behavior side of the risks, that is going to take a while to be known. So I don't think you can reasonably calculate now how lawyers and claims management companies for less reputable ones might respond to those changes. That's going to take a little while to roll through. So we have to be cautious until the claims patterns have settled down a bit anyway.

On Ogden -- sorry, I slightly missed the question on the Ogden, please?

Q - Analyst

Whether we're expecting in a rate -- sorry, when the rate went to minus 0.75%, I think most people are seeing in the market rate implied claim settlement rates were sort of much higher than that. Are we still expecting that to be the case now we've got a sort of long-term rate in place?

A - Unidentified Speaker

And yes. Sure, I'll take that. So got a rate that's in place for 5 years. The average life of these catastrophic claims is a bit over 5 years. So there will be some gaining in terms of settlement opportunities and settlement times. I think it's fair to say that the market experience has been settling claims at about 0.5% against the uncertainty of where the discount rate might lie and effectively a briefing that the discount rate would be between 0% and 1%. The fact that it's now in minus territory, absolutely, I think, does diminish the opportunity to settle below 0.5%. Against that, the propensity for PPOs will reduce.

Q - Ming Zhu {BIO 17001429 <GO>}

Sorry, just a follow-up question on your claims profile. What does your claims profile actually sort of look like in terms of the percentage of split between third-party external damage theft, please?

A - Geoffrey Carter {BIO 20386629 <GO>}

James, can you give us a high level...

A - James Ockenden {BIO 20485926 <GO>}

Very roughly, it's something like probably around half but it's 20% AD, 30% TPD.

A - Geoffrey Carter {BIO 20386629 <GO>}

30% property third party damage.

A - James Ockenden {BIO 20485926 <GO>}

Third party damage, sorry, and 50% injury -- all right, it's actually glued more towards 45% injury, roughly. Theft, I can't actually remember what the proportion rate is that, I'll have to go in with that one out.

A - Geoffrey Carter {BIO 20386629 <GO>}

Anything else? No? If not, thank you very much for your time, both in the room and on the phone. If you have any other questions, just get in touch with one of us. We'll be more than happy to follow-up. Thanks very much.
