S1 2020 Earnings Call

Company Participants

- Adam Westwood, Chief Financial Officer and Executive Director
- Geoff Carter, Chief Executive Officer and Executive Director
- Hanro van Heerden, Group Finance Quality Director
- James Ockenden, Chief Actuary
- Trevor Webb, Claims Director

Other Participants

- Andreas de Groot van Embden
- Ivan Bokhmat
- Ming Zhu
- Nicholas Johnson
- Thomas Bateman

Presentation

Geoff Carter {BIO 20756770 <GO>}

Okay, everyone. Good morning. Thank you very much for joining us. This is the first time we tried this via Zoom. Very sensibly, I'm not then allowed to press any of the buttons, but I'm sure I'm still going to find some way making a hash off of this at some point. Just a bit of housekeeping before we start.

The people presenting today are the same faces you've seen before. Sorry about that, and also Hanro is on here as well. Hanro is a senior accountant in the finance team, and he's on here to help us with the questions. There's two ways of asking questions here. At the bottom of your screen, you'll see a chat box. If you have questions as we go through, then feel free to type the questions straight into that chat box and at the end, Hanro will ask those questions on your behalf. The other option, in the participants box, you'll find a raised hand bit. So when we get to the Q&A, you can virtually raise your hand, at which point, Hanro will tell us you're ready to ask a question. I hope that's all going to work. We'll find out shortly. So I think at that part we'll push on.

So if we can go to the agenda, please. Thanks a lot. This is agenda will look pretty familiar to many of you. We're going to talk through the highlights, the financial results, the market context. Clearly, we're going to touch on the COVID impacts, a very brief reminder of our strategy and then the summary and outlook, the outlook being somewhat more confusing than perhaps in previous sessions.

If you can click on to the financial highlights, please. One more would be great. Thanks. I would say we are pretty pleased with these results while we recognize there are many other challenges for individuals and companies in the U.K. We've continued our absolute focus on profitability. We think we've delivered pretty encouraging results as we start to exit from lockdown. We're pretty certain we've delivered leading underwriting performance, clearly given the strong profitability and a lot of organic capital generation.

Premiums have been on something of a roller coaster. At times, in April, we were 40% down, and we'll touch on why that was later. June on the other hand has rebounded very strongly, 12% up year-on-year on June, and July looking very similar to June at this point. So a very strong rebound from a quite difficult output has not been commence. We've applied some data-driven temporary price reductions, and what we should probably say here is these are not reductions, these are less increase. Something that we've already put through.

We are continuing to cover claims inflation at the level we see it, about 7.5%, 8%. And we're fully on track to cover claims inflation and other cost inflation through the year. So a very tight focus on cover and claims inflation. And I guess a highlight here is the interim dividend. We're really pleased that we've been able to pay our normal interim dividend and returned partial amount of the excess capital through the deferred special dividend from the year-end.

We're very conscious on why people invest in us, and we see it as important that we do return dividends. Very strong capital coverage, 218% pre the dividend and 178% post. You can see the numbers on the right-hand side of the screen. Good loss ratio on the expense ratio and a very strong combined operating ratio.

We flick to some of the operational highlights. Get the next slide please. Thanks. I guess a few -- the overall focus for us here really is to ensure we are pricing correctly for the long-term and not getting distracted by short-term temporary trends, and that we bring colleagues back to the office in a safe and secure way. What are some of the key things are working on? We're continuing to support customers as lockdown eases. So we're making sure we charge the correct price for the claims frequency we see ahead of us, and will assist our direct customers on any payment issues.

We've had some temporary price discounting, which we'll talk about later. Key focus us right now is to unwind them in parallel to traffic in claims frequency increasing.

Continuing to cover claims inflation, we will optimize our profit within our normal 70% to 80% combined operating range. We are maintaining a pretty conservative set of assumptions, both in terms of pricing and partially in reserving to make sure we end up on the right side of the line. But we don't want to be too unambitious. We don't want to be too optimistic. We want to end up in the right place on our combined ratio first. Volume, as ever, is a secondary consideration for us.

I'm delighted to say that James and the actuary was able to continue to find new rating factors that we've rolled out in half one, and we want to see the benefit of those start to come through in the second half. The team had done a great job to carry on work on the Saga implementation, and we'd hope to have that live maybe around October. And clearly, we'll look to maximize the benefit from that. And I guess sadly, we have to ensure we are still ready for any second lockdowns or national lockdowns that might occur.

On this next -- sorry, Sam, next slide, that'll be great. This is a slide that we've unashamedly clipped from one of the major market seminars, just probably one of the key things we focus on. On the x-axis, you have the combined ratio, and on the y, you had the premium. We've maintained our position in the far left of this chart for a very long time. And probably it's one of our key focus to make sure we remain there. We're very pleased. This is the full year '19 numbers and that's exactly where we'd hope to be with a market-leading combined operating ratio. Now having stolen most of Adam's thunder, now I will pass to Adam and let him talk about the financial highlights.

Adam Westwood {BIO 20481660 <GO>}

Yes, thanks Geoff. So if we can flip forward to the next slide, please. Thank you. So let's move straight on to a summary of our H1 2020 result. So our top line premium came in at GBP86.9 million for the period, given our last reported position at the end of April was around 15% down year-on-year. This shows an improvement in the weekly run rate, with encouraging signs in May and then strong premium above 2019 in June and into July.

Accordingly, net earned premium was down, but this does benefit from some of the earned through premium written in 2019. Combined ratio, perhaps unsurprisingly, very strong for H1 2020, coming in at 71.7%, which I'll discuss in more detail shortly. In investment return, we implemented IFRS 9 from the 1st of January and classified the bulk of our investment portfolio at fair value through OCI. So the investment return recorded in the profit and loss now has become reflective of the overall portfolio yield, with market value movements taken below the line.

So profit after tax, as you would expect, is a function of all of the above, with earnings per share being proportionate to profits, profit after tax being GBP22.5 million for H1 2020. So having generated further excess capital during H1 and now having taken the time to assess the impacts of the lockdown environment, we are happy to announce that we've declared the payment of both the ordinary interim dividend of 4.3p per share and the deferred 5.2p distribution of excess capital, which we elected not to distribute earlier in the year. So the total distribution is, therefore, 9.5p per share at a interim stage. Excluding the capital required to fund the dividend, our post-dividend solvency coverage ratio is 178%, so that's somewhere above our preferred operating range.

On to the next slide please. So the usual breakdown of our underwriting performance. As ever, we'll take a look at our expense and loss ratio separately. So our financial loss, year loss ratio came in at 45.1% for H1 2020. That's a current year loss ratio of 55.4%, offset by a 10.3% benefit from prior years. That compares to 2019 H1 where the current year loss ratio was 64.3% and the prior year benefit was 16.1%. So our current year loss ratio is better than the prior year, offset by lower benefit from prior year runoff. That's completely consistent with our expectations that a lower claims frequency in H1 2020 would lead to a current year benefit and that the level of prior year runoff would decrease over time as we've seen. So expense ratio is up against 2019 at 26.6%.

Removing the one-off benefit of a accrual release in 2019, the comparative expense ratio would have been around 24%, so still up. The increase is driven by slightly higher costs, particularly in things like industry fees and levies, and that's taken over a premium basis lower than it would have been in the comparative period.

Our costs still remain well under control. And we do, of course, continue to cover the increasing cost of claims and underlying expenses in our pricing to keep our combined ratio within the favored 70% to 80% range.

So on to the next slide please. Our investment portfolio, while remaining very conservative, does look a little different now. As we discussed in January, we appointed Goldman Sachs to assist with our asset management with a mandate to maintain a low capital, low-risk portfolio, still predominantly back to increase our yield over the long term. We've chosen to step carefully into our revised portfolio and have currently invested a small amount of our assets into highly rated corporate bonds. We've got no direct exposure to the equity markets and have seen relatively little impact on our portfolio of recent market turbulence. We've continued to maintain slightly more cash than all, ensuring we retain excess of liquidity.

Then as a reminder that from the 1st of January, we adopted IFRS 9 for the first time. So there hasn't been any material impact on the balance sheet of doing so, but going forward, we recognize the market value gains and losses on our bond portfolio below the line in our accounts, which will result in investment gains to be recognized more appropriately over the life of the holdings, reducing P&L volatility. How do we recognize market value movements through the P&L in H1 2020? We would have showed a slightly higher profit than we have.

On to the next slide please. So having traded profitably through H1 2020, we've generated further excess capital, leaving us at a solvency coverage ratio of 218% pre dividend. When we elected not to declare a special dividend in respect of 2019, we said that we were deferring distribution due to the very recent severe restrictions placed on travel and the economy. Now several months later, with lockdowns being eased and the economic impact becoming more clear, we've decided that it's appropriate to pay the special dividend we would have paid earlier as well as our interim ordinary dividend in respect to 2020.

We are therefore declaring an ordinary interim dividend of 4.3p, in line with our dividend policy, which is 1/3 of the prior year ordinary dividend, and a special dividend of 5.2p, representing the deferred 2019 special. That means we're declaring a total odd interim distribution of 9.5p per share, and our post-dividend capital is up 178%. We consider that to be more than adequate to cover any reasonably foreseeable shocks, and it leaves headroom for growth should that be desirable.

On to the next slide, please, on final slide. So this is just a reminder of our overall approach to capital management.

In normal circumstances, we prefer to operate within the capital range of 140% to 160% and manage this through the distribution of surplus capital via dividends. By convention, this is measured as being the period end position less the cash required to fund any year-end dividend payments. And the dividend payment is not actually paid till sometime after the period end. So the actual level of capital we've held over the last two years has been considerably higher, as demonstrated on the chart on this slide. Of course, the level of capital held during H1 was particularly high due to a deferral of the 2019 special dividend and the strong levels of organic capital generation during the period.

On that note, I'll pass back over to Geoff for the next slide please.

Geoff Carter {BIO 20756770 <GO>}

Thank you, Adam. As usual, we are going to spend some time on our view of the market context. So perhaps we can go to the next slide. First one is on claims inflation, very consistent message here.

You would be pleased to hear we're not calling any further increases in claims inflation. Our view is that inflation has topped up. We don't see it increasing from here nor do we see any reason that it's going to decrease in here in any sensible set scenarios. I think this year we need to look through what will be a slightly odd picture with the lower claims frequency driven by the COVID impacts. So our focus is looking through those COVID impacts on pricing for the long term while we are still covering and recovering in this year's rate inflation of 7.5% to 8.5%, plus a couple of points to industry levies. So by the end of this year, we would have expected to have covered around 10% in price increases.

On to the next slide if you can please. So this is exactly the same slide you put into the year-end. I think we will continue to focus on industry levies, especially MIB. We had our reinsurance renewal in July, where the increase came in exactly as we expected. We said we saw market increases of between 10% and 30%, and we expect to be somewhere just up and around the middle, and that's exactly where we ended up.

On to the next one please. So this is the first new piece of news in some ways in the market context in the claims volumes in recent months. I guess if those of you who follow in the government traffic days, so this is a very, very similar profile, where we probably bottomed out at 65% or 70% down. The real question is where the volumes go from here. I think the most recent stats I've seen say traffic is back to 90%, maybe even 100%. It might be claims are late in that moving slightly. For us, the key thing is we need to unwind the discounts we've had in place in line with this increase in traffic as we don't want to get caught behind the pricing curve.

The next slide please. Now this is an interesting slide. This is our premium over this year. If you recall at the full year, we came into the year really looking to, I thought, optimize and maximize our margin by putting on a lot of price increase in the first quarter. When we did the full year results, I think it was the same week that lockdown had commence, and we really didn't have much idea what was going to go on. I don't think we quite expected the dip we then saw.

If you look at the graph, you can see we -- during April, up to 40% down week on week. As lockdown has eased, that has bounced back very, very strongly. It's almost like we hit a trampoline at the bottom, and we've bounced back up. What has cause that? There are some push and pull factors. The push factors in the recovery are that we have pushed out some temporary rate discounts, still pricing at 75% combined ratio. The pull factors are car sales recovery and the return to the market of new and inexperienced drivers and potentially people who use public transport in the past and are now considering car purchase and car usage, maybe for the first time.

So we've seen the push from our prices and the pull from wider market. I think the question now really is, where do low sales go? We don't expect to continue at 10% or 12% outperforming on a monthly basis. As we unwind our discounts, I'm sure that's going to come down. Interestingly, reading the statement from one of the price comparison websites this morning, they painted a very similar picture in terms of volume and have spoken about pent-up demand in those first few weeks. So we'll have to see how much of that was a bubble and how much of that eases down.

I certainly wouldn't expect to be going anywhere near the sort of bottom of that graph again, but nor do I expect necessarily to stay right at the top. This is quite a good demonstration of the Sabre strategy in a very compressed period. When something happens in the market that we don't understand, we stop, we take stock. We accept the volume decrease while that happens. We build some sophisticated data models that we can test our assumptions and volumes against and then we apply those prices with conviction, which is what we've done. What we don't do is knee jerk and we didn't chase volume during April. That I think would have been a bit of a false task really. Our focus on here is to keep focused on the correct price and let volume take care of itself.

Next slide if you can please. This is the same slide we put up at the full year. I think what we're really saying here is all the issues we saw driving premium inflation still exist. They haven't gone away. The work actually forms an out backflow for '21. The other factors are still there. They just may be slightly camouflaged this year.

Next slide, if you can. Now this is a slide that makes a appearance every time and will probably continue to do so. Basically, we are quite cautious if we are correct, that the market has to correct prices with the right volume at that point. If we're too cautious, then data will prove that and allow us to reduce prices, which is pretty much what happened as we came through April, into May, June and July. So I think this really demonstrates how we tend to approach life.

Next slide, if you can, please. If you recall at the full year, we -- given we were in the first week of lockdown, we tried to do some crystal ball gazing. I said, what do we think might happen? So we thought it was only right that we march our own homework a little bit on this stuff. On the cost reduction factors, well, I think we can say we got that one right, perhaps not too surprisingly. We framed claims frequency, clearly did come down significantly.

On the cost inflation side, we took a look at some of the things we were concerned about and what's happened. We were concerned about parts availability, principally through China. As lockdown has unwounded in different countries, that doesn't seem to have become an issue. Body shop capacity, at the moment, feels okay. We'll have to see how that goes as lockdown continues to ease and accidents increase. Increase in miles driven post distance. Well, that's still a risk. I think we're near 100%. Will the margins go past 100%, we'll have to see.

I think I was concern about gangs of people rampaging on the streets and the theft and vandalism. That didn't happen, I'm pleased to say. We still think there is propensity for financial stress, especially as furlough winds down which could lead to forward exaggerated claims. That will then feed straight into increased loss of earning and potentially some pull behavior from some of the claims management companies, which we'll talk about later.

On the next slide, please. I guess as we sit here today, these are the new things we are thinking about. Some of them are positive for price and some of them are negative. What are the concerns? Traffic volume increases, different claims patterns start to come through. The market fails to rise prices -- faster raise prices in line with the increased exposure and the customer impacts we've discuss. All of those could be offset wholly, partly or not at all by things on the right-hand side, reduced volumes, transition away from public transport, which brings new car lines into the market, and potentially, some competitors needing to sharply reverse some of the price discounts that were in during April.

On to the next slide, please. On some claim specific issues, some interesting stuff coming through here. Variations across geographic regions. Clearly, Scotland and Wales, they locked down for longer as an obvious one. An increase in the proportion of accidents involved in cyclists. Inexperienced cyclists and rusty drivers are not a great combination. Some pent-up demand we're seeing come through, unsubmitted windscreen claims. Some evidence of some pretty expensive credit hire claims. We're seeing some poor behaviors here. Trevor's team successfully defended a GBP300,000 claim on one credit hire case. That was when an Audi car, where the car was worth about GBP50,000. The credit hire bill was presented at GBP300,000.

We are seeing some similar examples like that start to come through. A really interesting one is an increase to -- in cost to claim in sanitized vehicles. I don't think we can argue with the principle of cleaning vehicles. What we are seeing is a cleaning cost per vehicle range of between GBP5 and GBP100. Now if you think that could happen 4x on a claim, when the car is taken in, when the car is given back, when the courtesy car's given out, when the courtesy car's given back. We think we are going to see some very, very exaggerated parts of claims coming through for that, some pressure on raising body shops as they seek to recover loss of income and a possible increase in nursing and care costs.

On the next slide, if you can. Clearly, the world is not just about COVID. We need to continue to maintain our tight focus on the underlying claims inflation factors we've discussed. The whiplash reforms, I think some people will be optimistic on the pricing assumptions there. Our view is until we see the detail, it's very hard to draw a sensible pricing conclusion out of that. Brexit is happening tumultuous. If that is slightly chaotic and disorderly, there could be some increase costs to nursing care costs and part tariffs. That, to us, will just form part of our claims inflation assumptions going forward, and other regulatory issues, which clearly includes the FCA loyalty pricing review.

Next slide -- or next two slides, please. Thank you. This slide I'm sure most people are getting bored of it by now, but we will continue to put this up. Our strategy hasn't changed nor do I expect it to change. Market-wide maintained wide underwriting footprint. We are currently quoting for about 98% of risks in the U.K. Underwriting performance, well I think we've demonstrated our adherence to that and a strong performance year-to-date. Strong returns in cash generation, hopefully, our dividend announcement today has demonstrated our commitment to that piece. Premium growth, a sort of mixed message, I guess, this year, down, but then we've been very happy to accept growth as volumes have bounced back in June and July.

The next slide will also make a regular appearance in these presentations. Just to restate our target, and the long-term is 75%, that's our bull's-eye. In soft market conditions, we're perfectly happy to write towards 80%, where that optimizes our profit. We'll be coming at towards 70%, and even as we've increased prices to protect capacity or some other good news has come towards us.

On the summary slide, so overall, we are pretty pleased with where we sit at the half year. We are very comfortable with our position. We're very focused on our long-term strategy. We're continuing to focus on profitability, not volume. Market conditions have improved very significantly since our AGM trading statement. I certainly don't expect to be back in the troughs we experienced around volume anytime soon. We're very comfortable with our rating on new and renewal business.

The price discounts we past through to customers have given -- have worked within cautious assumptions. So we haven't over pushed it and now we're comfortable that the business we're writing is still with our long-term margins. The reduced uncertainty has allowed us to return the excess capital through a dividend, as you're seeing today.

The outlook, the final slide we'll talk through. Premium for the year is uncertain. As we've said, it's been a roller coaster. I don't expect to continue at quite the same level of outperformance nor do I expect to get back massively below last year. Where it is in that range really does depend on the market dynamics and where people price and whether some of the pull factors sustain as we go through the second half.

We're very confident that core will be in our target corridor and close -- very close to our mid-70s target. And we're going to continue generating organic capital and we're, again, pretty confident we're going to deliver an attractive dividend for the full year as well. Well hopefully I've not turned off the screen as I've done that, and you're all still there. At this point, we're going to go to Q&A if that's okay. So, as a reminder, if you go to participants tab, there should be a sort of virtual raise your hand or you're your questions in the chat, whatever is easiest for you. Hanro, I think, is going to be monitoring that and Hanro, you will hopefully now be unmuted and can tell us who's got a question.

Questions And Answers

A - Geoff Carter {BIO 20756770 <GO>}

(Question And Answer)

A - Hanro van Heerden

So currently we don't have any questions in the chat or the e-mail, but we do have a question from Ivan Bokhmat that's raised his hand. If we can unmute him.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thank you for the presentation I've got two questions please. The first one, you mentioned that you've started to unwind some of the discounts that you've applied throughout the lockdown. Just wondering if you're starting to see similar actions taken by some of your peers, maybe kind of the most recent feeling that you have on the pricing in the market? And second question that's related to the regulator. I'm just wondering whether you've had any kind of articulated response to your decision to pay the dividends, including the special. And secondly, whether you've had any feeling of what the attitude might be towards measures to help customers through the lockdown. We know that one of your peers have made big refunds to customers. And in the light of the FCA price review, I'm just wondering if the regulator may now have a more articulated view of what was the appropriate approach in this situation.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks. I'm going to take those in reverse order, if that's okay, Ivan. And maybe, James, you can unmute yourself, too, and talk about the pricing bit at the end. On the attitude towards customer measures, the discounts we've given have been to new and renewing customers. As you know, we don't dual-price. We charge the same price to new and renewing customers. We don't involve ourselves in that dual pricing process. We have spent our money. We've not looked at super profits. We've rebated a large part of the benefit we see through lower claims frequency in June and July. We think that's an underwriting decision and the way we should do it.

Other things could be considered brand decisions, and that doesn't feel appropriate for us as a business. So we are spending our contribution through appropriate price discounts. The PRA, yes, we've had regular conversation with the PRA with our interim dividend. I'm pleased to say we have a very strong relationship with the PRA and I think they behaved very sensibly, very appropriately. They've asked us some tough questions to make sure the board had tested our thinking on the stress scenarios. So we've had a good relationship and good conversation with the PRA building up to today. Impacts on pricing, James, anything you want to say on pricing at the moment?

A - James Ockenden {BIO 20485926 <GO>}

No. I mean I think the only thing that I'd start to say are, clearly, as Geoff has stated, we've seen big fluctuations in the volume over the last few months. And we've taken what we believe is a pretty methodical approach to making sure we got our pricing correct and allowing for the varying levels of exposure over the lockdown period and beyond, as obviously we price our policy now for exposure over the next 12 months. I think what I would say is it only takes one or two to be irrational in their pricing. And all of a sudden, you could see someone massively underpin rates in the market. So I think we've seen evidence of that in the sense that volumes decreased significantly in April and then we had a stronger Q2 in terms of June and July. So that's probably indicative that rates in the market are changing, but clearly, we are focusing on what we're doing and what we'll to some extent.

A - Geoff Carter {BIO 20756770 <GO>}

Yes, makes sense. Did that answer your question, Ivan, or anything to follow-up? You might be muted.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Yes. Thank you. No, that's good. Just to follow up on the PRA. I don't know. Do you think the decision to let you pay the special dividend could be viewed as a broader indication of the approach to the sector? Because that's a question that I'm sure we'll be interested -- many would be interested in.

A - Geoff Carter {BIO 20756770 <GO>}

I'm not going to try and talk with the PRA on this one. And so I think we're a different sort of company. We are U.K.-only, we're motor-only. We're invested almost entirely in government bonds, effectively, gilts. We're very capital generative, so I think when I look at our particular circumstance, we couldn't see any reason not to pay a dividend. I'm not going to talk for other people or how the PRA might view that.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Okay. Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Hanro, anyone else got their virtual hand up?

A - Hanro van Heerden

Yes, the next question is from Ming Zhu.

A - Geoff Carter {BIO 20756770 <GO>}

Ming hi.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi. Good morning. Just one question on claims inflation, please because that same has been the same since your full year '19. And why has that not reduce since the claim frequency has reduced quite a bit in I think as showed as in one of your slides, 17? Has something else has increased to offset that reduction in claims frequency? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

James, I can see you're unmuted. I think we need to differentiate between short-term frequency differences and long-term severity spend.

A - James Ockenden {BIO 20485926 <GO>}

Absolutely. So I'll say, I mean, when we're looking at inflation, we're looking at what I'd call long run inflation. So we -- you're absolutely right. We've seen a temporary reduction in claim frequency on account of the lockdown, but that's not baked into those numbers. So we really think of that as a temporary one-off effect, and we see inflation as long term what's driving cost, so to speak.

A - Geoff Carter {BIO 20756770 <GO>}

Yes and all the factors we've spoken about before, the increased cost of fixing bent metal, theft, all the things we've been through in previous presentations still absolutely apply.

A - James Ockenden {BIO 20485926 <GO>}

So I think, Ming, if you -- you could do it, you can always work out a -- probably work out a weighted average of what the good guide for reduction in frequency versus our ongoing 8% claims in frequency -- 8% claims inflation, but I think we would be misleading if that we say -- if underlying inflation have reduced on the back of what we really see as a one-off event.

A - Geoff Carter {BIO 20756770 <GO>}

Yes. Thanks, James and I think the important thing is that, James, in your price and you're continuing to cover that claims inflation on prior (Multiple Speakers).

A - James Ockenden {BIO 20485926 <GO>}

Yes, sure. Yes.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks. Hanro, anyone else hands up?

A - Hanro van Heerden

Yes. The next question is from Nick Johnson.

A - Geoff Carter {BIO 20756770 <GO>}

Nick, hi.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Hi.

A - Geoff Carter {BIO 20756770 <GO>}

We can hear you.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay. Sorry, so two questions, please. Firstly, so June and July growth, very strong and you mention that the push pull factors. Those are -- quick nuance on that, what competitor appetite has been like in nonstandard risks in June and July? And also, perhaps if you could give us a flavor of how the mix between nonstandard and some more mass market risks has changed through the 6 months. And then the second question is on capital management. So things slowly starting to return to normal post COVID, and there seems to be a better pricing environment generally than it would have been a few years ago.

So where about in the 140%, 160% range would we feel comfortable being in that environment? Historically, it's always been sort of towards the top end of that range. Should we expect that to remain the case it would be in the next year or so?

A - Geoff Carter {BIO 20756770 <GO>}

Okay. Thanks, Nick. Yes. So on June, July, we frankly don't spend much time trying to track and paint us in too much detail. We tend to focus on our price and actions, on what we think is right. What I would say is we are aware some companies have had a tough time. I think it's probably not the listed companies you might focus on, some of the smaller entities.

For example, like Gefion you might have seen, went bust, I think, about a month ago now. They were providing capacity to some of the MJs in the market. Not a huge surprise that they went under. It had been coming for a while. So I think some of those smaller companies, as James said, it only takes one or two players to hold back the market. So I expect some of those companies may have focused more on nonstandard, so maybe that's eased the competition a little bit around the edges of the non-standard. On the mix, non-standard and standard, it feels to us like it's pretty much bounced back in June and July to how it looked in March before lockdown started. So it feels like our mix of standard non- or near-standard, what we consider more nonstandard, feels pretty consistent. James, anything you'd like to add?

A - James Ockenden {BIO 20485926 <GO>}

Yes. I mean I think we saw a reduction in newly purchased vehicles, whether they be new or second-hand vehicles. Unsurprisingly, they -- because they weren't changing hands during lockdown and we were seeing fewer first-time drivers coming through clearly as they were stayed -- getting their licenses and do driving tests and do driving lessons, et cetera. So we saw a small fluctuation for a temporary period. And as Geoff said, it's kind of returned back to normal now.

A - Geoff Carter {BIO 20756770 <GO>}

Yes. And your final question was on capital management. So I think we've always said 140% to 160%. We've seen anything, in normal circumstances, we have seen anything over 160% as excess capital. And I think we've been pretty clear, Adam, in previous presentations that we're looking to try and provide a sustainable, probably level dividend, and we're happy to use that range in appropriate times as well.

A - Adam Westwood {BIO 20481660 <GO>}

Geoff's absolutely right. I mean if you look back to where we were towards the end of last year and going into this year, we were starting to talk about, well, maybe we could quite happy pay into that range, and there's no reason not to. Clearly, we made a point in time assessment at the full year that it wasn't the time to pay either the special dividend or down into that range. We've now paid that special dividend. I think looking forward, circumstances will dictate where we are, but we are certainly in normal circumstances comfortable to be anywhere within the 140% to 160% range.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay, that's great. Thanks very much indeed. Thanks.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you, Nick. Hanro, anyone else.

A - Hanro van Heerden

Yes, the next question is from Thomas Bateman. Hi Tom.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning Geoff. Good morning Adam. Glad you're both well and still upbeat. Just on claims firstly. You give us really nice color on sort of body injury claims and cyclists and what you think might happen sort of longer-term and also touched on sort of forging claim, but have you seen sort of any evidence of more bodily injury claims, particularly since driving you pick up a little bit and any evidence of sort of fraudulent or whiplash claims coming through? I'm thinking less about claims management company behavior and more sort of consumer. Just to follow on from that, on reserving, given there's sort of more uncertain outlook you've painted, to a certain extent, has there been sort of any additional caution or any sort of reserving buffers built in now compared to the beginning of the year?

A - Geoff Carter {BIO 20756770 <GO>}

Yes, sure. Let's go. I think this time you guys hold up. I mean according to James, upturn in reserving in a second. I think it's fair to say we applied exactly our normal reserving approach. Clearly, there is a bit more uncertainty in the most recent year. James, do you want to pick up from there?

A - James Ockenden {BIO 20485926 <GO>}

Yes. Absolutely. I mean, as Geoff alluded to the presentation, there's a few more complexities in the in the claims world now, which is inevitably impacting uncertainty in the reserving. So I think a good example was they -- using PPE in courtesy vehicles and in consumer vehicles pre and post-repair. There are the sorts of things that are creating uncertainty, and therefore, we have attempted to reflect that in the reserves. I think only time will tell as things get back to normal where we sit, but at the moment in time, we feel we have applied the typical safer approach and continued to do what we do. So we haven't kind of created a thunder -- an explicit buffer, but we have reflected the fact that there are potential adverse characteristics that could drive the reserves unfavorably.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks, James. If you can unmute, Trevor, if that's okay. Trevor, the next question was around have we seen any increase in bodily injury claims, if you're there?

A - Trevor Webb {BIO 21909270 <GO>}

Yes. So Tom, let me pick that up. So in terms of cyclists, in absolute numbers, cyclists' claims are not reduced. But as a proportion of claims, we've certainly seen an increase there, partly offset by a reduction in the number of children involved in accidents where the child is outside of the car. So typically, some running into the street, et cetera. So during the lockdown period, we saw fewer of those. Bodily injury frequency has really fallen in line with accident frequency, so no particular pickup.

I guess though with a mind to some of your question around fraud, what I would say there is we have seen some activity in terms of late notified claims coming through, so some claims management companies really trying to push some of those claims through. And I think it's fair to say that of our department, at the moment, our counter fraud team is the busiest, so where the rest of the department has seen a reduction in volume, our counter fraud team remains fully occupied.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks, Trevor. So does that answer the question?

Q - Thomas Bateman {BIO 21707516 <GO>}

Yes. Yes, it does. And I guess just to recap, it's more than -- particularly on the body injury claims, it's more of a long-term concern over where these claims might go rather than sort of any evidence that you've seen thus far.

A - Trevor Webb {BIO 21909270 <GO>}

Yes. I would say that at the moment, there are delays in medical evidence being produced. So whilst the market has agreed to medical examinations being carried out remotely, a lot of the medical experts have been tied up and actually providing medical services to support NHS. So there have been some delays there, rehabilitation delays as well. So forward-looking, we do see some challenges coming out of that personal injury environment.

A - Geoff Carter {BIO 20756770 <GO>}

Hanro?

A - Hanro van Heerden

Currently no more hands up, Geoff, although Andreas van Embden had his hand up, so maybe if he does have a question, if you want to raise it.

A - Geoff Carter {BIO 20756770 <GO>}

Andreas, anything you'd like --

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

Yes. Yes. I just want to go back to Slide 18, if possible, please, where you just showed the volatility in the volumes -- or written premiums during the half year. I just wondered, this is a premium number. This is not a policy number, and policies were down, I think, year-to-date, around 6%. I just wonder whether you could draw out sort of a rate line during this volatile period, because, obviously, you cut your rates in line with claims inflation and claims frequency from April. I just wonder where you've ended up on the rates line, if possible.

A - Geoff Carter {BIO 20756770 <GO>}

Yes. So I think one is to clarify, we haven't cut rates. We've just put less rates on I think it's fair to say, James, and we might have done to reflect this temporary period. So we're looking to cover 9% or 10% cost inflation by the year-end. We're currently seven months in. So James, I think our rates are pretty much in line with that approach?

A - James Ockenden {BIO 20485926 <GO>}

Yes, I think prior to the whole lockdown piece, as we said earlier in the year, we're seeing significant inflationary pressures, and we felt that prices had to go up. So we, in the first quarter of this year, put a reasonable amount of rates on. And it's probably in around, as Geoff said, it's been a case of not putting -- we did make an adjustment in April, and we're unwinding the adjustment temporarily to reflect the reduction -- temporary reduction in frequency. But fundamentally, it doesn't change the fact that inflationary pressures are pushing rates one way.

A - Geoff Carter {BIO 20756770 <GO>}

Yes. So by the end of the year, Andreas, we'd expect to be nearly 10 points up. Year-on-year, we're significantly up given the price increases we put through last year as well and we're comfortably into the mid-teens on year-on-year price increases.

A - James Ockenden {BIO 20485926 <GO>}

Yes.

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

So if your premium volume is down 14% and your policy count is down around 7%, is that gap -- that actually, if different, what is that made up of? Is that mainly mix effects?

A - Geoff Carter {BIO 20756770 <GO>}

It's not one we have a snap as to actually, Andreas and I think, Adam, anything you want to say on that one?

A - Adam Westwood {BIO 20481660 <GO>}

No, I can take it offline with you, Andreas, but I suppose there are all sorts of things feeding into that. Not least the policy count, I suppose, is the right policies as at now, so a dip in new business and renewals coming through wouldn't proportionately impact the number of policies going close at the moment, unless if one canceled at the same time. So it's quite hard to draw that comparison exactly, but I am happy to go to into it with you in more detail later.

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

Thanks. Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks Andreas. Hanro, anybody else?

A - Hanro van Heerden

No more hands, Geoff.

A - Geoff Carter {BIO 20756770 <GO>}

Let's give it a second in case anyone has a sudden urge. No? Okay, in that case, I'm pleased to say we seem to have got away with our technological test. So like if you've got any questions afterwards, feel free to give us a call or an e-mail, and we're happy to follow up on your other questions. Otherwise, thank you very much for joining us, and speak to you soon. Thanks a lot.