Y 2017 Earnings Call

Company Participants

- Cristina Nestares, Chief Executive Officer of UK Insurance
- David Stevens, Chief Executive Officer
- Geraint Jones, Chief Financial Officer
- Milena Mondini, Chief Executive Officer, Europe Insurance

Other Participants

- Andreas van Embden, Analyst
- Andrew Crean, Analyst
- Arjan van Veen, Analyst
- David Bracewell, Analyst
- Dhruv Gahlaut, Analyst
- Greig Paterson, Analyst
- Iain Pearce, Analyst
- Nick Johnson, Analyst
- Thomas Seidl, Analyst
- Unidentified Participant

Presentation

David Stevens {BIO 6807391 <GO>}

Good morning, and welcome to Admiral's 2017 Full-Year Results Presentation. Thank you for battling through the element to join us today, and thank you to Bank of America Merrill Lynch for hosting this morning. Now, Admiral, started in January -- January 1993. So, we are now 25 years old, and the 25 logo that you will see throughout the presentation reflects that.

To celebrate that, we've decided not just take the normal six to 12 month backward looking, forward-looking perspective on the business. We've also thrown in some longer term perspective, if we through the presentation, and I'll start with one of them. There is the picture of the founding management team, when we were 57 staff, one country, one brand, no customers. But it gets (inaudible) looking bunch, and there we are today and 9,500 staff, five and three-quarter million customers, eight countries, 18 brands.

As you see a much bigger management team both collectively and sadly individually. Today's presentation we'll be starting with myself and then Geraint Jones, the CFO will give Group overview before Cristina Nestares, the UK Insurance CEO talks about our UK result, and I will come back to talk about the US, both insurance and price comparison before Milena Mondini, Head of Europe Insurance talks about European insurance and price comparison and I'll come back for a brief wrap up. Over to you, guys.

Geraint Jones {BIO 19738535 <GO>}

Thanks, David. Good morning, everyone. I'm going to talk through some of the highlights of the results covering the turnover, customer growth, profits move onto talk about capital dividends and I'll finish with a quick update on Admiral loans. This is our usual highlight slide to kick things off. On the top we show customer numbers, turnover. We'll go into some detail on both of those very shortly. So I'll just highlights double-digit increases in both again.

All parts of the Group growing particularly in households in UK and generally things outside of the UK. Our profitability, you'll have seen we were reporting GBP405 million of pre-tax profit, earnings per share of 117.2 pence. Those are both record figures. Of course, the comparisons are clearly very impacted by Ogden. If you head on 2016 into the Plus 43 and Plus 49 need to be seen in that context. So, it is is good to get back to an upward trajectory and profitability.

A similar story for return on equity 55% for 2017 is a very positive number back in line with our, our usual historic performance. And our full-year dividend is 114 pence per share, that's a 11% up on 2016. If you exclude the additional capital return we paid in 2016. And finally, in the middle, solvency ratio remains very strong stood up over 200% or a bit lower than it was at the end of 2016.

These are the top line figures from across the group. Picture looks pretty similar to the recent reporting periods, strong growth in all segments, lots of green arrows. I particularly point to nearly 4 million both the customers in UK, which covers cars and vans that's comfortably gone passed 4 million since the end of the year.

We see more than 40% growth again in household customers and turnover really pleasing figures again from household. And in our international insurance turnover was up by nearly a quarter heading towards GBP0.5 billion and customer numbers were up by a fifth breaking through 1 million customers outside the UK and turning strong momentum. And more than 10% growth in the turnover from the price comparison business as well.

Moving onto talk about profits. David mentioned Admiral turned 25 earlier this year that's why I wanted to show the full profit trajectory since that first year back in 1993. Hopefully, you will agree, it's an enviable track record. Profits have increased in all about two years, and of course one of those years 2016 is due to the Ogden impact and you can see that in the red dots.

2017's profit of 405 is over twice as big as the profit 10 years ago. There was a huge multiple of the number 20 years ago 1997. But let's look at more detail at 2017. This year, we compare the result for each of our segments compared to the previous year. The UK profit as you can see GBP466 million it's a record. As I said earlier, the comparison is distorted by Ogden and also more about the UK separately. The international insurance results improved again to GBP14 million compared to GBP19 million the year before. That's mainly a factor of higher profits at ConTe in Italy, fourth year in a row in profit for ConTe. A lower loss in the US and that latter result coming despite the hits from the hurricane in Texas in 2017.

The price comparison result improved to GBP7 million profit and GBP3 million profit. The main features there being reduced profits at Confused.com. Great results from Rastreator and LeLynx in Europe and reduced losses at Compare.com which hits its marketing break-even target for the year.

Last up is our Other segment. You can see that was up compared to 2017, variety of reasons, and GBP9 million of the movement you can see explained in the slide, but the first year of the Admiral loans which is negative four and 2016 included an unrealized gain on foreign exchange for contracts. There is a breakdown of those costs in the appendix if you are invested.

As I said 2016 is not a good basis for comparison. So, this slide looks back a year further to 2015. As you can see the UK Insurance profit is GBP22 million higher than two years ago. GBP3 million of that improvement comes from household where we have a much bigger book, a better expense ratio and a better loss ratio which is a pleasing combination.

And therefore Motor profit is GBP19 million higher in 2015 despite the earned premium being 20%. Key point to remember, of course, as you can see on the slide, the 2017 result was paid on the basis for Ogden stays at minus 0.75%. There is a continued drag on profitability in 2017, as a result of that change that's about GBP14 million. 2015 obviously had Ogden plus 2.5%. So, the Ogden change is a key factor in understanding why the profit in 2017 is GB20 million also higher than it was in 2015.

This slide also helps illustrate the progress in international insurance where since 2015 has doubled our turnover and reduced the loss by a third. More detail on the performance of our various segments shortly from my colleagues. Changing subjects, if you look at capital, familiar looking slide here shows our solvency ratio still very strong again over 200%.

The main movements since the middle of the year as you would expect. The second half profit, investing the final dividend, some increase in the capital requirement, which is mainly due to the growth in our balance sheet, but also the expected volume we see in 2018. There's no change to report in the basis of the calculations. We are still on the standard formula plus the capital add-on and we are making progress towards our internal model application later on this year, hopefully getting approval in 2019.

We still think at this stage 150% is a good indicator of the upper end of our target range, once we get that internal model approval. Of course, we do recognize that 200% is somewhat north of 150%. And to that point I repeat the message of six months ago, which is until we've got certainty over the internal model capital position we won't talk more about any potential surplus capital position. And what I mean by certainty over the internal model position is getting the internal model approved.

Let's take a look at dividends. As you can see we are proposing a final dividend for 2017 at 58 pence per share. In line with our guidance, we've looked to hit a payout ratio in the 90s and 58 pence per share is 97% in the second half earnings, still leading us for the 205% solvency ratio you saw on the previous slide.

We repeat the formal dividend policy on the slide here and I would also reiterate unless or until we say otherwise. Payout ratios in the 90s if you would guide for dividends going forward. You'll need to be on the record on the 11th of May to get paid on the 1st of June. The half year, David talked about our aspirations to grow in areas beyond car insurance. And I'll just give a brief update on one of those areas where we hope will be an important source for the growth and profit in the medium term that's of course Admiral loans. You can see the year-end we had nearly GBP70 million of loans receivable on the balance sheet. Recently, we've gone through GBP100 million of lending to our customers.

Given the relative size and maturity of the business, we're not going to go into too much detail at this stage, but some of the key messages in terms of our product and our progress set out on the slide. We expect future -- further growth in the balances during 2018. We remain happy with the performance in the KPIs. We are, of course, aware that there are potentially uncertain economic times ahead. And our focus is on building a prime book. We are projecting a material change in the P&L guidance for 2018 is between 5 million and 10 million up from GBP4 million in 2017.

That's it from me. I'll leave you with some of the key messages. Continued strong growth in all parts of the Group. Record profits, those still held back in the UK by Ogden. Very pleasingly early progress for Admiral loans and we maintained a very strong capital position whilst paying out basically all of our second half and actually full year profits to our shareholders and dividends.

I'll hand you to Cristina who will talk us more about the UK business.

Cristina Nestares {BIO 18674745 <GO>}

Good morning , everybody. I would talk to you today about the results of the UK Insurance operations. I will focus on the motor results talking us about the market, and I will also also cover health. But let me first start with a bit of historical perspective. You can see here an ad, Yellow Pages ad from Bell from many years ago when actually Yellow Pages was our serious source of business. Now about 20 years later, you can see a very different ad for Bell. Bell is now a telematics only brand that we sell the price comparison and it's helping us at this stage as a telematic leader in the market.

Now, let's look at the highlights of the UK Insurance in 2017. It has been another good year of growth. In terms of unit our Motor book have grown by 8%, and that includes a 5% growth in our car unit reflecting a slowdown in the first quarter of the year due to price increases after the open announcement. It also include 120,000 balance that we put in the book at the year-end in the first year of operations for banks.

In terms of turnover for Motor, it had grown by 13% and that includes an increase of 11% in cars reflecting our price increases. In the case of households, both customers and turnover have increased by 41% as for profit Geraint has already talk about that.

Moving onto claims in the market, the frequency of a small bodily injury claims registered in MOJ portal has continued trending down. You can see here in the graph, it went down by about 12% in '17 following a 19% reduction in '16. So why is it going down so much, well, we think it's a combination of safer cars by also changing lawyers behavior. The prospect of our reform might lead to some lawyers to choose to focus in other sectors unless on motor.

For 2018, it's hard to predict, but we'll work on the basis that we are not going to see such a reduction increasing. On the right, you can see a graph about accidental damage in the market, and you can see that the trend for '17 and '16 has been very similar flat frequency, an increase in severity reflecting mostly an increase in parts.

For '18, we are expecting a continuation of this trend. So, this is the market data. In the case of Admiral our now claims experience for both small BI claims and accidental damage has been consistent with the rest of the market. In terms of large claims, it's actually much harder to comment on what is happening in the market because Ogden is causing a lot of disruption. What we can tell you is that, for Admiral, 2017 frequency of large BI claims appears to have been in the case especially in the context of Ogden. So let's talk about market premium. First graph is the ABI data reflecting increases but also taking into consider it includes an IPT increase in the middle of the year.

The graph on the right show Admiral time stock index to the last quarter of 2016. So, what you can see in this graph is that deposition and the time stock of Admiral at the end of 2016 and at the end of 2017 is actually quite similar. This indicates that Admiral had good prices in line with the rest of the market.

However, the timing of the -- those price increases it is slightly different as we put prices ahead of the market at the end of 2016. Now, before talking about what our prices going to do in 2018, in our view, I want to talk about excess of loss. As we all know the cover of excess of loss has increased its price this year. And, Admiral, what we did in 2017, as a reminder, we bought more product to cover for the stock of Ogden because the prices in the market were finding our view.

So, in 2018, we have gone back to our long-term average of around 8 million to 9 million, but at higher cost. So that is excess of loss. Let me talk about prices for 2018. Now, three things that could affect what the market is going to do. First, excess of loss, I just mentioned that prices in the market has gone up. However, for what we have seen in the market, we haven't seen any significant increase in market prices so far. Second thing that could affect prices is the claims environments we have seen relatively benign in 2017, and we expect our consideration during 2018.

And finally, we think that the prospect of the reform as and if they can more concrete could have an impact on prices at some player might start increasing prices ahead of the reform. So, overall, we don't expect a continuation of the price increases in 2018.

Moving onto the ratios. This is the slide that we have been showing for a number of years. You have Admiral data in blue and the market in red. However, as the market data has not been updated, it's becoming obsolete, so we might stop showing this comparison in the future. You can see the data for 2016, which we have taken from the low estimate. So, for Admiral, the loss ratios have been booked at minus 0.75 discount rate and as you can see there have been some development in 2016, '13 and '12. These decreases are less than what we have traditionally shown. And the reason for this is that Ogden is causing disruption in the settlement partners of large claim. In this environment of uncertainty we preferred to take a cost residue. In terms of expense ratio, you can see that we continue to hold a significant advantage over the market due to our focus on cost control.

Reserve releases, well, UK car reserve releases continue to be a strong feature of our results. Reserve releases in '17 , where 21% ahead of the long-term average of around 15. The margins in book reserve remain prudent and significant, but it's slightly smaller in relative terms than the first half of 2017. And going forward we expect a continuing significant reserve releases it claims developed as expected.

So, this is it for motor, but before moving on into household another bit of -- expectation. In this slide we have the Other revenue per vehicle only a few years ago it was GBP84 per vehicle and now it stands at GBP64 quite a stable in the past few years. So the reason for this decrease are two-fold, first one of referral fees and secondly is a fact that we have improved our products which actually means a better outcome for our customers, but lower margins for Admiral. So, in terms of household, I think the most important feature of our result has been the strong growth of 41%, in a time where the rest of the market is not showing a lot of growth. So, what are the reasons for this increase. I think, there are three, the first one is the fact that price comparison which is our main channel has continued to grow, as you can see on the graph.

The second reason is that there have been price increases in the market. Admiral has also increased the prices of its household book, but it has lagged the market, which has allowed us to grow. And the third reason is that beyond price comparison, we have increased our direct offering. We offer a multi-cover policy that allow us to cross-sell, household policies for our motor book. So, strong growth in units, and also improvement in our ratios. You can see on the graph on the right, our expense ratio improved from 34% to 30% during the year due to increase in SKL [ph] and a bigger renewal book. And I think it is particularly significant that we hold an advantage to the market, which we believe stands at 45%.

In the case of loss ratio, we have seen an improvement during 2017 the good weather has helped definitely nothing like today. So, going forward, for household, we expect a continuation of the growth, possibly not at a 40%, and we also expect an improvement in our ratio.

So, I would like to finish by talking about the customer because these results are only possible because the trust that customers give us. Something very concrete that we have done to improve the customer experience during 2017 is to improve the feature of our products. And we are very proud to say that today all our product hold a five star de facto rate and option. So, that includes our car, our telematics, our household, and also the two products that we launched this year in '17 that is van and travel.

So, in summary, 2017 has been another good year of growth for the Admiral UK Insurance business. The car insurance market have seen increases and Admiral Household increases in line with the rest of the market. For 2018, we do not expect prices to continue increase in the market and we have enjoyed a very good year for our household group with good growth in unit and also improving our ratio. So, that's it for the insurance business. Now, over to David.

David Stevens {BIO 6807391 <GO>}

Thank you, Cristina. So, before diving into the US, let's take a longer term bigger picture perspective on international. 15 years ago, we were active in one country. Now we are active in eight countries. I would like to take this opportunity to apologize the people of Sardinia their exclusion and ensure them that they can buy policies from ConTe.

Going onto the US. Elephant had a year of growth 8% up in terms of number of cars covered and a year in which the losses shrunk both in absolute and percentage terms. Admiral share of losses falling from $21 million to $16 million. What's driving this? Well, the primary reason for the improving result and it's rising is continued improvement in combined ratio. So, here you see the Admiral ratio compared with the market in red and Admiral improved from 143% three years ago to 119% last year. Again some degree of headwind from the market which has been unusually difficult for the US auto insurance market with an increase from 103 to 109 over the two years for 2016 and I think it's probably about 107, 108 in 2017.

So, (inaudible) on a journey towards profitability and our projections are coming to profitability and making a decent return on the investment to-date. However, we do always run stress scenarios at the end of each year, and there are also some stress scenarios in which Elephant would not fully return the investment we have made, and so we have shown this part of our conservative approach to our business to reduce the book value of Elephant on our book from 125 million to 100 million.

Big part of the improvement in combined ratio has come from an improvement in loss ratio, which is being something I've talked about over the last two or three presentation. And I think you can see here the progress that has been made. I've called out Texas because Texas represents 50% of the business we write in the US. We are the blue line and again you can see a situation where we've made progress notably in 2017. Again a difficult market context where the whole market in US was going in the wrong direction then 2016 hail adversely affected the Texas markets.

2017 of 76 was achieved despite Hurricane Harvey which would have affected us and actually the market as a whole. So, as well as improvements in loss ratio, other reasons why I'm very positive about Elephant are a round of refinement in our strategy at the beginning of the year I asked Henry to go to the US full-time along with Alberto Schiavon one of our UK managers to see if we can sharpen the strategy in the US. And the conclusion of the work that they did is that we should focus more on one specific segment and that's what we've done. One of the ways of looking at the US market is around propensity to stay with your own loyalty. The US market is very polarized between customers who moving out of insurance, a very active shoppers, but often struggled to maintain the policies throughout the life of that policy that they canceled and take it up again.

In the other extreme there are multi-car relatively affluent customers who typically shop much less often, but are much more loyal. And historically Elephant has appealed across the board. On the left hand side you can see the mix of businesses that we write in Q4 2016 where the red block at top represents the low propensity to renew, and the green block at the bottom is the highest intent to renew. And as you can see over the year through a series of changes in marketing message, marketing mix and customer proposition. We moved the mix of business substantially away from the lower retaining book types of business to the higher retaining types of the business. And our estimates of the impact on that in terms of ultimate retention will be that the book as a whole will have a 17% better retention as a result of this change in mix.

Now that's great, but you would expect to pay a price in much higher marketing cost to appeal to the ultimately more valuable customer. So, we are very pleased to have combined that with an actual improvements in cost per vehicle sale, which was immediate cost per vehicle sale, which was over $260 and is now under $230. Henry has now returned to the UK, working part time, Alberto Schiavon has stepped up and become the Elephant's CEO. Over to the comparison business, Andrew, was here at the half year talk more about the business. It's been a good year, we've gone below $10 million in terms of our own loss. The panel continue to evolve and I've highlighted two names. One, is obvious Travelers, Big Brand US and globally. Encompass you might be wondering why am I highlighting Encompass. More brands you probably never heard off. It is actually the third brand in the all states table. So, the full state insurance and by far the smallest brand, Encompass, which signed on and is now active in large number of sates. Not necessarily material per se, but maybe assigned with some progress in terms of persuading at least one of the big flaws that its work engaging with Compared. Top right you can see the year has been a great one in terms of marketing efficiency with top of the quote harving [ph] despite volumes up by a quarter and the quality of those quotes improving more than translating into (inaudible) ultimate device. Still work we've done there and we are guiding to a loss in 2018 between $5 million and $16 million for Admiral.

So, continuing improvement in Elephant's result, a refinement in the strategy that gives us increased confidence in its long-term help reduced loss compared and the milestone achieved as marketing breaking them.

Over to Milena to talk about Europe.

Milena Mondini {BIO 18674746 <GO>}

Hello. Good morning, everybody. I am here today to talk to you about our insurance operation in Italy, France and Spain and our price comparison site across Europe. Price comparison site is our major distribution channel nowadays and also in Continental Europe. But it was almost an exist of 10 years ago. I will then focus more on content, our Italian ambiguous operation. While there are more detail about Admiral Seguros and L'olivier in the appendix. 2017 was a mixed year for price comparison site, was a near investment in Confused, invested in a Drivers Win campaign to position ourselves as the -- go to place for drivers. Growth investment in other projects as car buying selling online and car financing. We believe that this new strategy will help us to differentiate ourselves. The market is still highly competitive with more than GBP10 million of investment of the top four players in one single year. Profit decrease year-on-year as a consequence for investment. In the last months of 2017 we started to see some benefit of our investment. We have noticed a good engagement with the rent, but it will take time for the benefit to fully deploy. Continental Europe will experience another year of strong growth both in France and in Spain.

The starting position is quite different. In Spain where Rastreator has 70% market share and is leveraging on its dominant position to diversify the business with particular focus on the financial vertical. This is a bit more mature market compared to France. In France LeLynx is also one of the two top player in the market, but the market is less mature under our new entrants that are investing in CB.

We do believe that these investments will help us the channel to grow and its important to remind for us, it's very important that the market move direct also support of our operation, insurance operation there.

Moving now to insurance in Italy, France and Spain. 2017 and 2016 was another year of very strong growth. We grew 60% in active policy base and turnover reaching 309 million revenue in '17 and 854,000 customers.

We are consciously investing in growth to reach the economy of scale in each country and the scale that we believe will help us to deliver material profit in each single business. It is important to notice that we did achieve this growth despite the cycle is not favorable yet particularly in Spain and in Italy where prices are expected to increase.

At the same time even more important reduce losses overall. Losses went combine in Europe from 10 million to 5 million to 2 million in '16 and '17. Main driver of this was ConTe that at a year of record profit that I think it's important to mention that Admiral Seguros is not far from reaching sustainable profitability either and in L'olivier we are still investing to reach scale but this investment is not large at all.

In this slide you can see the key evolution, the evolution of the key ratio in Europe. The first things you may notice is that loss ratios is in a very good range while expense ratio is over market average. So (inaudible) ratio is over market average. There is a mix of reasons. The most important one is that we have a higher percentage of new business renewal book, and we don't have the scale yet particularly in Spain and particularly in France. This is why for us reaching, decreasing expense ratio is crucial and it's critical and one of the most notable results in my opinion for the year is a strong reduction of price point combined in Europe, while growing at the same time. We are indeed within the benefits of our investments in brand awareness. We are realizing a material internal efficiency through most process automation and optimization, and we are reducing the cost per policies in every single country. Reduction of expense ratio will be realized in every single country and we remain positive to continue this trend in this direction in the future. Loss ratio combined in Europe has been between 70% and 80% in the last four years. We believe that's very good results. It's important to us because being able to transfer our competitor advantage in underwriting and pricing was one of the key assumption for us when we decided to launch internationally.

And we think we achieved these results. In 2017, in particular, the loss ratio deteriorated as you can see, but please remind that these number include reserve releases. And 2016 was the year of extraordinary reserve releases particularly for ConTe, while the underlying loss ratio is relatively stable. It's also worth to remind that we adopted more conservative approach in booking in France and in Spain as we are already doing in Italy and UK.

Reserve for the year was also positively impacted by insurance contract in 2017 in particular. Moving now to ConTe. ConTe had a great year. We had record profits, was profitable for the fourth year in a row. The broke even on recent basis for the first time while in the past we have to wait few years to realize the profitability on return basis because we have to wait for the loss ratio, ultimate loss ratio estimate to improve.

We had a record expense ratio with six point decrease, and this was mainly driven by internal efficiencies, and this despite the strong growth and despite we are in an adverse part of the cycle with the average premium in the market decreasing and now down 22% compared to five years ago.

We also went live with the new IT system Guidewire that is now supporting the majorities of Admiral Group. And ConTe was called second best place to work in Italy for the second year in a row. But the most notable result of all is definitely passing the mark of million customer. What a great way to celebrate the new year, 600 happy colleagues celebrating 500,000 happy customers.

I like now to conclude with a comment about Europe in general. Italy, France and Spain are somewhat different, but very similar among the Southeast compared to UK. They show similar challenges and somewhat similar opportunity and we did work in the last two years to make sure that we were increasing the synergies, and we were sharing more bets practice. In summary, trying to make sure that the value delivered by European Union, Continental Europe combined was greater than the sum of the individual countries. One of the most notable effort has been investment in technology. We have a company in Spain called UI General Service that supported the three operation in Europe. As you may expect, the most important project is preparation for Brexit. We selected Spain as location for a new insurance company that will underwrite business for the, our operations in continental Europe from 2019. The project is going well and according to plan.

We appreciate that given the size of European Insurance is increasing, there is interest in knowing more about those business. So we'll be very pleased to address these later in the year and indicated investor date. To wrap up, here investment in Confused, very strong growth, both on price comparison site and insurance company in Continental Europe improving results in each single business in each operation will reduce combined losses overall and record profit for ConTe. And I shall now handover to David that will talk to us about growth and strategy. Thank you.

David Stevens {BIO 6807391 <GO>}

Thanks, Milena. One last long-term perspective we've talked a lot about things that are change from 25 or 20 or 10 or 15 years ago. One thing hasn't changed and that's our commitments to making Admiral place that people enjoy working at. And to demonstrate in this exhibit, in 2001, the first Sunday Times Best Companies to Work For survey came out. And we came in at number 32. We are one of only two companies that have come in the top rankings of that survey every year thereafter and the latest survey which is particularly gratifying seeing as voted as the third best big company to work for. And last year we managed 23rd on these global best companies to work for. So, we love to see that culture being exported internationally. I just going to finish the end of the quick restatements of our strategy very simple is the same that I described two years ago when I first became the CEO to ensure that Admiral remains one of the best insurers in the UK to demonstrate that we can be a great insurer beyond the UK and to develop sources of profit and growth beyond the insurance. Briefly expand on each of those, so in the UK, it's around serving more customers, which we've done in space in 2017. That's both in car and for new product like van and travels and household. About knowing our customers better, which we partly do through product innovation like multi-cover and telematics. And its about keeping them longer and that's through product evolution the de facto five star, the improvements in the product quality of the ancillaries and the improvements in the customer service delivery. Demonstrating that Admiral can be a great insurer beyond the UK. It's around understanding what it is about Admiral is exportable and making sure that we also adapt the local market condition. And what proved to be exportable is talent and recollection, and a low cost expense culture. Beyond that we have to do a lot of adapting. And I think the Elephant positioning towards particular segment in the US market through direct marketing is an important example. Claims handling in Italy is another example where there's a lot that we've learned over time. And I think we are now ahead of the market on claims handling in the Italian market. We are focusing on the existing countries in which we have insurance operations. We are not planning to launch into new countries, and we are seeking to accelerate the switch in consumer behavior, which you saw from Milena's graph, I see the long-term structural trend towards direct in price comparison. We are seeking to accelerate that in certain markets by our investments in our own price comparison plan. Lastly, in developing sources of growth beyond insurance. Again we seeking to develop on our strength. So we're looking for intangible services sold at a distance ideally. We are looking for products sold price comparison sites ideally. We are looking for products which have a high degree of risk selection is an important success criteria. And we are going to test relevant products in that universe with the most obvious test being our launch into loans. Most recently our expansion from unsecured personal lending and car finance and that's going to be an important initiative as we go forward. Okay. Thank you for that. Here are your teams 10 years ago and I'm going to open it up for Q&A. I know the question on everyone's lips is how the forum has managed to avoid the ravages of time so successfully over the last 10 years. But can we keep the questions to the business, please. But before I take my first question, I just like to take this opportunity for thanking Karen Maguire, our Investor Relations Manager for whom this is the last set of results, and the last road show. Certainly worked over the last few years. Moving on up to be the CFO at Confused. Congratulations, Karen, and thank you for all your help. The queen is dead. Long live the queen. Marisa is our new Investor Relations Manager. Richard Costner a very confident person that we'll -- you'll have all his guessing over the next couple of years. So, over to Q&A. Can we go straight to back, sorry, Karen. No, no, you're in charge.

Questions And Answers

Q - Unidentified Participant

Very good. Greig Paterson, KBW. Two numbers (inaudible) and observation. Could you just give us what the -- as you typically do, the December year-on-year rate increases in UK margin including new business and renewal together. And could you just clarify exactly what your retention was on excess of loss in 2017 versus 2018. And I would also interested to know what your plans on what should we do in terms of automotive and connected vehicles. And, finally, just an observation my view your business model is very cryptic for financial structure and by dropping, if I heard correctly, the drop the ultimate, just I think that makes a cryptic business model, more cryptic, there was a comment about dropping the ultimate?

A - David Stevens {BIO 6807391 <GO>}

Not in person.

Q - Greig Paterson

For the market. Then I'll take back what I said. Obviously not a cryptic business model.

A - David Stevens {BIO 6807391 <GO>}

Okay. Let me do the ones and I'll hand the price increases that's been up right at all. On our excess of loss page 44 is the full detail of the history of our excess of loss. And in terms of autonomous vehicle we have excess of loss in fact with what happen technologically. We are active with start out this campus plug and play. We have one of our senior managers embedded in a tech oriented private equity funds. We do a lot in cooperation with some of the start-ups. We also stay close to some of the test which are going on around in the UK in terms of autonomous vehicle. So far we have felt that it is not commercially advantageous to invest beyond our investment in that area we feel we can follow the development in that technology adequately from the work the we do elsewhere. Cristina, would like to comment on pricing?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, prices in the markets according to the AVA have gone up by 8% and that includes 2% IPP. We have put prices similar to the market, that's December to December around similar to the market, yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thomas Seidl, Bernstein. First question on home, great progress, you still run at 20 percentage point higher loss ratio. Is there any reason why we should reach market average 50%, 55% loss ratio is including diversification and knowledge and beta? And secondly on US comparison you talked about the progress you made. Can you talk about the market there are switching away rates going up I think it's about 75% retention where the situates going up those people who do switch use more price comparison and how do the competitors of Compared the (inaudible).

A - Cristina Nestares {BIO 18674745 <GO>}

So, the loss ratio in the household book is much higher than the market. Several reasons. First, we are still learning, it's been four, five years so we are collecting more data improving how we experience, and how we handle our claims. So, we expect to improve our loss ratio. Second reason is in the market, the retention is very high. So a lot of the competitors have very large renewal book. So, we might not be able to get very quickly to the average of the loss ratio in the market. The third reason is price comparison it's only 60% of the market as the share of the price comparison -- more people will be switching, there will be more comparison in prices and that would allow us to look at the loss ratio in the market.

A - David Stevens {BIO 6807391 <GO>}

And as far as US comparisons pure through price comparison is highly time in the US. There is a lot of noise and one of the challenges for Compare from a marketing point of view, so lot of noise from people who advertise, as if they were comparison operations, but sometimes deliver an outcome a simple as listed people to click through, sometime collect the couple of people's data and then parse you off with someone else show an indicative estimated price. So, the actual pure comparison market is very small, but growing fast, I mean, really, really small. Some of the shopping activity, it is a bit higher than it was two years ago, but I think we'll have to see whether that's structural or whether it's responses back with prices that's been increasing in the US market essentially over the last two years in response today adverse loss experience and then stimulate more shopping in any market.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thanks. Arjan van Veen, UBS. I've got couple of questions on the European insurance business from me. Firstly, the loss reduced to 2 million, bit of negative five in the first half and three units in the second half. You mentioned reserve release at ConTe. Just curious the underlying trends improving that much, can we expect that going forward or is it bit of distortion in the second half. Secondly, you mentioned prices increases instantly in France. If we look at only, I think, 2% price increases in the fourth quarter of 2017, lot of your competitors being prices up towards the end of last year. So, can you give more color of magnitude of price increases particularly in France?

A - Cristina Nestares {BIO 18674745 <GO>}

So, going to the difference between the first half and second half. We do have -- there is still some volatility in the result. And this is driven by -- we believe by the fact that we have some business that are still with the small book. So, there is some volatility in loss ratio. And you mentioned that one of the -- one of the reason why one of the positive impact on 2017 is there is also from distortion of insurance contract with some differ profitability on 2017 versus previous year. So, there is some distortion, there is some volatility. We did have interest in reserve release in second half. This happened also in the past because we tend to have more deep revision of the results at year end. But also, I think it's very, very important if you look at the years combined and you don't extrapolate the trend. And so you look at really the trend year-on-year rather than looking at the difference between second half and first half looking forward. On the price increase the reality is that in Italy we are expecting a quite strong price increase. In the last actually a couple of years and this has been postponed mainly because good underwriting results. The increase has been smaller than we expected and we are very concentrating in the very last part of the year. Year-on-year, there was not material price increase and all the price increase next year only on traditional player the direct market actions not applicable. France is relatively stable with very, very small price increases and this is mainly claims inflation.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. Andrew Crean, Autonomous. Could I go into a bit more detail on your UK major result. You are signaling I think flat pricing for 2018. Could you compare that with what you expected for claim then us. And then I agree with Greg's point. I find your result now increasingly upscale. The results you are actually reporting this year, I mean, to what degree are they reflecting underwriting years '14, '15, '16, in terms of, I mean, seem to be now sort of three or four years behind what's actually going on? So that's the second question. Third question is, you say that your time stock has got better, but I noticed that you actually put on more car policies in the first half and second half, so should we be looking for an acceleration in the number of car policies on the book in '18 or in '17?

A - David Stevens {BIO 6807391 <GO>}

So, I've quoted on the profit and loss accounting, the recognition of results. The philosophy of our accountings, the claims that we take a cautious approach and we release the reserves into profit and we have good amount of the confidence that they are going to be releasing and the profits are going to be profits. The business that we are earning in 2017, we are accounting for is roughly break-even on our underwriting new basis. And there is a cost profit from ancillaries and fees and that which gets recognizes basically in the year. And reserve releases is 21% the premiums, the associated profit commissions is what grows the underwritings of the profit commission and that comes from the underwritings you see in the appendix. We show you a loss ratios booked by underwriting. We show you the excellent year of best estimates and telling you how much money you make on other revenue per vehicle and generally I think you can get to how much money we are making. Agreed with some of the structures particularly on profit commission complex, but somewhat handled [ph] terms of the confidential. So we cannot tell you what they are. But we try our best. In terms of the evaluation of prices going forward. Do you want to talk to that Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, you talk about our prices improvement, but actually the craft we sold is more about flat, but at the end of '17 and the end of '16 our time stock is same. In terms of claims evolution during 2018. We think it's going to be a continuation of the denying trends of '17. So, that is an increasing (inaudible) and damage overall and a continuation of the reduction in the small BI claim. What happens to large claim, I think, it's harder to predict. So, overall, it's going to be benign, but it's hard to predict very concrete. So, we think in this environment prices are going to be flat, they could be a few points up or down depending on how claims to do, but that's how our view at the moment. Having said that what happens to the government reforms. Will they become concrete? It's clear that they are going to have in April and the extent of the reform it's going to have a significant impact on the second half of the year, so it's hard to predict exactly, what we're going to have to prices. Then your question about the growth in '18, '18 there are two compliance to go. One is new business and the other one is renewal and some of the things that you might be seeing on our improvement in our retention rate.

Operator

(Operator Instructions)

Q - Unidentified Participant

(inaudible) BNP Paribas. Three questions from me all on UK car. And first is on the Ogden the 40 million that on this year. So, is it possible for the drag that you flagged this one last year. And is it from DYD or is it convention or combination. The second is, you disclosed the car insurance range but it was -- that we have changed slightly, so that you get installment income. Could you just remind us that the arrangements for the ancillary income as well there. And also whether actually this reflecting any broader changes and the terms of the agreement there recognizing of course that there is a limit towards given the confidentiality. And the third is on prudence in UK book at half year you that's as well of course you can have a enormous amount really. You will act the business slightly and again you will act in H2. Could you just give us a sense how much this contributes to your DYD. Sorry, not just on DYD, but your packs [ph] on loss ratio and is this a reduction of a new policy. Is this that -- are we expecting, sort of, a still very prudent, but not quite prudent at all for now on. Thank you very much.

A - David Stevens {BIO 6807391 <GO>}

Geraint, you want to take all three.

A - Geraint Jones {BIO 19738535 <GO>}

I'm good to go. Ogden the GBP40 million hit this year mainly affect profit commission. It is the kind of ongoing drag when we talked about in 2016 results effectively I think we said GBP200 million pre-tax impact just about 150 that now we've taken. And secondly just installment income changing the new arrangements. There has been a slight shift where we get all the installment income and but of course immediately therefore make less profit and so we get less profit commission. So, really that's allocating our underlying in the income statement. And there aren't significant changes in any of our reinsurance arrangements. And the final one was prudence in the reserves. We talked at the half year about bringing the size of the conservative bought really down. And if you go back to Ogden we were saying that we would expect to bring the level of conservatism down over time as things gone back to in normal times. Ogden obviously disrupted that significantly. And so we increase the size of the margin at the end of '16. We brought that down in the middle of '17, and down very gradually in the second half of '17 as well. Reserve releases for the year were 21% premiums higher than the long-term average. I think, how we kept the margin throughout and same as the end of the previous year would have been back in that sort of normal range anything of that order.

A - David Stevens {BIO 6807391 <GO>}

Ancillaries in the UK all accrue to us on car typically brought they shared with the re-insurers.

Q - David Bracewell {BIO 16394801 <GO>}

Hi. It's David Bracewell, Redburn. Two questions. What are the ultimate loss ratio in the UK, and haven't changed in '13, '14 and '15 are stable hope that in '16. So, my understanding was the ultimate claims was settling better rate and minus 0.75. So we would have expect perhaps as I came through the numbers the actuaries would have improved there your large (inaudible). I know you talked about different such impacts or maybe a bit more detail will be useful. Then the second question, just on the new production mentioned right at the end. I mean are the new product going to kind of co-related products or actually you're looking to expanding into any different types of products and related the car?

A - David Stevens {BIO 6807391 <GO>}

The new products are necessarily car related. They will be related to our strength, if you look at lending, we are doing car lending, but we're also doing lending for the purpose, but it's wherever we do lending with selection lower expense is relevant. And still an interesting product and increasingly quite compared to distribution is also very relevant to cut the number of lending products. And maybe I'll Ogden as well. What you are seeing is coming out of the work and it's very difficult both for insurers and lawyers to understand what is an appropriate settlement, when there is so -- on much uncertainty around the actual financial contact. And so it is very difficult to the net effect, the evolution of claims, so they are developing in a different way because few are actually reaching settlement. Just to create more uncertainty. And in that context we choose to take a relatively conservatism how that might unwind.

Q - Unidentified Participant

Rodgers Reed, Deutsche Bank. Just going back to the question on accident year loss ratio. So, at halfway stage, you said the loss rate was slightly, it reflected some conservatism because Ogden uncertainty and the full year it has come down quite a lot. So, I was wondering if you could break down -- break that improvement down between, what's coming from the nine claims, price increases and actually what's the conservatism which we have released. That is the first question. The second one would be on reinsurance. So, increased your deductible to 8 million. Just wondering, in terms of, are there any changes to the terms of the contract as well in terms of Ogden we had moved the price changes well with it. What would that represent as a cost of your premium, not for the market. And just finally in some of your peers are still talking about escape of water claims inflation in home, and your price increases have lagged the market. So, do you generally believe that you have underwriting edge when it comes to escape of water games or what's happening there? Thank you.

A - David Stevens {BIO 6807391 <GO>}

And Geraint (inaudible) and maybe Cristina escape of water?

A - Geraint Jones {BIO 19738535 <GO>}

What question was that? Seriously running down the first class.

A - Cristina Nestares {BIO 18674745 <GO>}

If there was any other change in the terms of the contract and the answer is no.

A - David Stevens {BIO 6807391 <GO>}

And the first one was the improvements in the current year loss ratio for half year to full year. Probably, he was asking about the position was in half year. The full year has gone basically 88 to 85, a three point improvement. And I think it's, we are not going to break down into various components. But we'd say that we take quite a little, very little credit and potentially more favorable large loss elements and some of the imply by minus 0.75% ultimate. And so, I would say, there are projection of where 2017 will end up at this point as a conservative projection.

A - Cristina Nestares {BIO 18674745 <GO>}

And the final question was around the escape of water in household and we did experience some inflation of this type of claims during 2016 and took actions. Both in claims management and in pricing and during 2017 the escape of water has been weak for us.

A - David Stevens {BIO 6807391 <GO>}

Just for on the same clarity although the terms the excel hasn't changed the cost out and for someone with type of retention that between 1% and 1.5% of premium.

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

Good morning. Andreas van Embden, Peel Hunt. Just going back to Confused and your strategy there. Could you just maybe update us a bit more detail the investments you are making and this last year 2017 and how you think that the profitability of the business will improve in 2018 and '19. Seems to be still lagging the competitors in terms of investments. What are you exactly doing to turn the business now. Thanks.

A - David Stevens {BIO 6807391 <GO>}

The rational of the strategy on Confused as you got four players which in terms of their offering are relatively undifferentiated. And we are seeking just differentiate Confused going forward as the price comparison for motors.So there are being two type of investments. One is investment has been in product range. So, we develop the first car finance comparison offering in the UK. We are developing car buying and selling options on Confused. So there will be some investment in products. There's also been in investments in communicating the repositioning, towards motorist and Driver Wins through the James Corden campaign that has cost us in terms of profitability in terms of its long-term outcome, it's still uncertain. What we have seen is a better outcome in the second half than the first half and that's carried through into the first couple of month. For Confused this is a long-term repositioning and not a short-term issue.

Q - Nick Johnson {BIO 1774629 <GO>}

Good morning. Nick Johnson from Numis. I had a question on the UK car unit growth in terms of customer numbers. I think you previously said that there is still a lot of market share to go for given the current market share. Can you just comment a bit about the how the (inaudible) plans gave -- is getting harder those competitors increase footprints in upgrades and pricing models et cetera or is at more managing stay ahead of the competition.

A - David Stevens {BIO 6807391 <GO>}

What we said for a number of years that the UK market is characterized by increasing characterized by a small numbers, I think very confident quoted focus normally direct personal lines players, and the market is moving towards those players, which obviously we are very much one of those players, that will continue to happen, and we have to work in that context. So, the focus on remaining one of the best insurers in the UK is the selection of the importance of being able to match the progress with the likes of tasting direct line insurer are making and the better operators and they were 10 years ago. Having said that to be able to grow the business as we have 5% for car insurance business much more substantially if you look across the whole portfolio of products. It's just that we are able to do that competitively and produce a very good return.

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean again. One things which you could do, which might be helpful. I just asked for. And the sensitives one point improvement in the accident claims ratio, which you brought in the appendix doesn't reflect how it changes when the terms change particularly on the (inaudible). If you could give us a profit because that is essentially highly misleading, that would help us, I think, being able to reject the profitability as you improve your own right?

A - David Stevens {BIO 6807391 <GO>}

The sensitives range a different movements rather than just one other way.

Q - Nick Johnson {BIO 1774629 <GO>}

And you shouldn't compromise me, there is a lot of moving parts of that.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi. Iain Pearce from Berenberg. Can I just clarify one thing whether has actually been any affect on CY deal profit commissions from the fact that Ogden claims have been exactly minus 0.75 adjusting we need some further clarity on these?

A - Geraint Jones {BIO 19738535 <GO>}

If the question that have prior -- has prior development. I think we expect why the packs of claims are settling at minus 0.75. I think there's so little of the impact on our projected loss ratios have come from de facto claims have been settling at minus 0.75 because the patterns are disrupted and the very largest of losses aren't settling in and sourcing numbers that you are normally expecting to settle up because there has been, some claims settles the rate or an implied rate at least that isn't 0.75 at least some of that through into the results. But I think as Cristina and David mentioned the patterns have been quite disrupted this year, but I don't think there is a large impact and we certainly haven't banked a lot of credit for lot of other claims not settling at the way.

Q - Iain Pearce {BIO 19522835 <GO>}

What is the clarity?

A - Geraint Jones {BIO 19738535 <GO>}

Is there anyone -- on the phone. We have phone linking.

A - David Stevens {BIO 6807391 <GO>}

Yeah, we'll ask couple. Thanks.

Q - Iain Pearce {BIO 19522835 <GO>}

Just some clarity, excess of loss premium. I wonder if you could just give us the actual number for '15 '16 '17. Maybe I wasn't that smart and turn it right and you answer. And second thing is if you can give us sort of an indicative inflation rate in motorist. I know you said it as benign, but what sort of rate, what sort of rate range happened in 2017. And then you made the comment that you set up insurance licenses it's (inaudible). I assume that's right next to Gibraltar, so that you can share stock or as it indicate much more committed due to the low cost Spanish market. I'll just want to say, one of the views, I have at some point you can have to reach Spain that you set up a licenses does that indicated that's just for the next to Gibraltar or is it Brexit or are you showing a renewed commitment like the Spanish market?

A - David Stevens {BIO 6807391 <GO>}

I think you are opened at the end. You don't and you don't choose Madrid because it's close to Gibraltar. But there are a number of excellent reason around the fact that we got, an exhibit relationship with the regulator. It's a nice place to be in the regular flights from Cardiff. In terms of excess of loss, we'll think about it, it's not that material, and I think in our cost structure overly heard about it. We will see whether we are comfortable to further disclosure.

A - Geraint Jones {BIO 19738535 <GO>}

It' an indicative increase for people who have a structure similar to ours with quite a high retention.

A - David Stevens {BIO 6807391 <GO>}

Yeah. What we show in the appendix, Greg, is the cost of an '18 program from 10 million and 2.5% premiums. Our program was slightly -- cost slightly less than that is very much at that level. And we also show you the cost of that type of program a year before that's just 1% premium a year before where you put more capital. So we paid something less than 2.5% of premium in 2018.

A - Geraint Jones {BIO 19738535 <GO>}

Claims inflation you can see from the numbers we've shown the small BI and the AD. And show you a model sophisticated enough to incorporate that into historic claims inflation the challenges what's going to be the ultimate claims inflation on BI. So, it's not easy to say, look, the actual results for 2017 was X or Y. And it was very hard also to project forward really interesting issue through those more BI trends continue flatten off, reverse. So it can be very much of watch the space as the market evolves. Some positives and some lots of uncertainties. Unlikely that it will be negative inflation. Can I ask if there is anyone on the phones who is interested enough to take questions?

Operator

We do have a question from the telephone lines from the line of Dhruv Gahlaut of HSBC. Dhruv, please go ahead.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning, thanks for taking my questions. I have three questions. Firstly, could you update on the reinsurance contract. I am assuming that must be coming for renewal on the 35% or 38% of the UK motor book, and do you expect any increase there. Secondly, on the investment income side you still are sitting on almost 50% of your portfolio around cash money market funds et cetera. Should we expect any changes there and what's the yield you are getting at this point. And third question in terms of PPO propensity, could you remind us in terms of, have those been adjusted down and what interest rate do they reflect, are they still based on the negative 75 or are they around 1% mark? Thanks.

A - Geraint Jones {BIO 19738535 <GO>}

This is Geraint. Thank you, Dhruv. Quota share contracts for 2019 will be extended there, I think, are now fully signed. Same terms and conditions, same price. So that will roll on into 2019? Second one, I think, was investments return. The asset allocation hasn't change very much of course of the year and wouldn't expect to change materially in the future. These running yield I think something in the order of 1.4%, 1.3% and you multi that by GBP3 billion of cash hopefully you get to our investment income. And PPO propensity we haven't changed by over the course of the year. And obviously nothing is settling in the PPOs. You might expect in this -- of this environment and hence probably the comments certainly on distortion of settlement patterns. Though we haven't changed the PPO propensity since the end of last year since end of '16.

A - David Stevens {BIO 6807391 <GO>}

Maybe one more question on the phone if there is one.

Operator

We have no more questions from the telephone lines.

A - David Stevens {BIO 6807391 <GO>}

Okay. Thank you for all coming and to be honest [ph] six months.

Operator

Ladies and gentlemen that does conclude the Admiral 2017 full-year results. This call has come to a close. And you can now disconnect your line.