S1 2011 Earnings Call

Company Participants

- David Stevens, COO
- Henry Engelhardt, CEO
- Kevin Chidwick, Finance Director

Other Participants

- Andy Broadfield, Analyst
- Andy Hughes, Analyst
- Colin Simpson, Analyst
- Greig Paterson, Analyst
- Marcus Barnard, Analyst
- Paul Guess, Analyst
- Peter Eliot, Analyst
- Tony Silverman, Analyst
- Unidentified Participant, Analyst

Presentation

Henry Engelhardt {BIO 3022947 <GO>}

Good morning, everybody. Welcome to Admiral Group's 2011 full-year results presentation, our eighth such presentation since going public in September 2004. I'll give a brief overview of our results; then Kevin will dive into some detail; David's going to talk about the biggest business in the Group, UK Car Insurance; I'm then going to follow up with a review of our non-UK operations, and a look at the future. Right, ready, set, let's go.

Every year we stand up and say Admiral is different. We're different from other companies, and in particular other companies in our sector, for lots of reasons, but I think the most striking difference is our return on capital. We are quite focused on getting the most bain[ph] for our shareholders' buck. This year, the return on capital figure is, once again, a staggering 59%.

Now we could actually make more money if we didn't have reinsurance partners, we do sacrifice profits for these partnerships; but if we maximize our profits our return on capital would be greatly reduced.

Do we have a target number for return on capital? Is 59% a sustainable number? As you can see, by asking two questions at once I am building myself up for a second career as an analyst. The answer to the first question is, no, there is no particular target. Our goal is to maximize the number based on the ever changing circumstances we encounter every day, which leads to the answer to the second question, which is maybe, maybe not.

59% is not a magic number against which we will measure our future success or failure. The environment is in a permanent state of flux. Some years it might be in the long-term interests of the business to reach a higher number than 59%, while other years it might be wise to accept a lesser figure.

Another major differentiating factor between us and other insurance companies is our ability to grow rapidly and yet increase the level of dividends. Growth, like we've experienced in the last two years, is quite stunning. We cleared the GBP1 billion turnover figure at the end of 2009, and 24 months later we've cleared GBP2 billion. Normally, when insurance company making a move like this solvency requirements would hoover up all the capital in the business, yet our dividend payments have gone from 57.5p in 2009 to 75.6p in 2011.

Specifically, 2011 produced a record profit; 13% higher than 2010 at nearly GBP300 million. All eight years that we've stood in front of you since going public we have produced record profits. And as there actually was life before being public, we've produced record profits 12 years on the trot.

As I said, the first time we had a turnover figure in excess -- this is the first time we've had a turnover figure in excess of GBP2 billion. This is some 38% higher than 2010 and, as I previously noted, double the figure from just two years ago.

It wasn't just premium that grew; we now service 22% more customers than a year ago. Along the way, we cleared the 3 million customer mark and are now well on our way to 4 million. That we grew our customer numbers by over 600,000 in the year is a credit to our staff, who have coped admirably with the incredible growth of these last 24 months.

The Group combined ratio increased from 89% to 96%. The UK combined ratio increased from 84% to 91%; disappointing, not because it is a bad result, but because so much more was expected.

As you know, this increase was driven by a reduction in reserve releases and the higher initial booking of the loss ratio in the UK in response to the claims trends we have been experiencing. Later in the presentation, David will take you through a number of the actions that we are taking to address this experience. I am confident that the hard work, which is ongoing, will have a positive impact on the future.

Lastly, the dividend payment for the full year is 11% higher than a year ago and represents a payout ratio of 92%. We continue to believe that excess cash sloshing about in the Company has the potential to reduce our efficiency and/or be wasted, and our philosophy is to let our investors waste it in any way they choose instead.

Now this is my favorite chart. It was actually going to be in Kevin's part of the presentation, but I stole it from him. All this growth is organic and it traverses good years in the cycle and bad, good years in the economy and bad. As you can see, in our first year we had turnover of GBP18 million. This was a great success. We thought we'd conquered a planet. Now we do that every three days; a whole year's work in three days.

And now I'd like to turn it over to Kevin, so he can do the rest of his slides. Thank you.

Kevin Chidwick {BIO 15100612 <GO>}

Thanks, Henry; nice slide. Good morning, everybody. I'm going to run through some Group numbers and start with this slide, which I think is quite familiar to you all, which is the components of our profit. As Henry said, our profits are up 13%, GBP299 million, and this is the major component of that. The dominant part, of course, is the dark blue color, which is the UK Car Insurance business.

The underwriting result in the UK Car Insurance business was helped by prior year reserve releases of -- in both halves of the year. We released GBP4 million in the first half of the year, we released GBP6 million in the second half of the year, which meant obviously GBP10 million in total, which is a reserve release of about 2.5% in UK Motor; down somewhat, of course, on the prior year, which released[ph] about GBP23 million.

But profit commissions were much the same as they were in the prior year. We made the contribution to profit in the UK of GBP61 million from profit commissions, these are profit commissions from our reinsurance contracts of course, compared to GBP68 million the year before.

And the reason that they're somewhat considerably higher relative to the reserve release is because we're earning profit commissions from the 2010 and the 2011 underwriting years, which are both earning through 2011 and generating considerable profit commissions. And, of course, they're both years that benefit now from these improved profit commission terms that we put in place that we've talked about in the past.

And the UK Motor result was also helped by a significant improvement in other revenue. Most of that, of course, is from the growth in our vehicle base, which went up 22% in the year and drove a significant increase in ancillary income contribution.

But we also saw a growth in installment income, both from that increase in vehicle numbers, but also from the fact that with Munich Re stepping down from their 45% to 40% of the proportion that extra 5% of installment incomes comes to Admiral Group in 2011, which wouldn't have been the case in the past.

So that's really the dominant component of our number.

You've got the light blue color at the top, which is the contribution from our Confused.com subsidiary in the UK. Confused had a pretty good year in 2011, I think, all things considered, in a very difficult context. It made GBP16 million of profit, and it held its market share pretty stable in what is a tough environment.

And then once again, looking very similar to our 2010 numbers, we've got two minus 5%s at the bottom of this graph. The first minus 5% is for our International operations, which I'll leave Henry to talk in more detail about a bit later. But, at this point, just suffice to say that they represented about the same investment pull on the P&L as they did in the prior year.

And then the other 5% is the cost of our Group costs, as we've called it, but is actually, primarily, the cost of our Group share scheme where we do, very enthusiastically, look to embrace as many staff as possible in the share scheme. We've got over 6,000 staff in the Admiral Group now and so the cost of their participation is represented in this number.

Henry's already talked about the return on capital number; it is 59% in 2011. It is a very pleasing number. This graph shows that number set against the previous whatever that is, seven years since 2005. It's always been over 50%. It's exactly the same number, coincidentally, as it was in 2010.

It's really driven by the Admiral model, which is a unique model. The reinsurance support for our capital really drives this return on capital, and we were pleased to announce in early February that we'd extended our reinsurance contracts in the UK to at least the end of 2014 for the reinsurers. Of course, Munich Re, as the co-insurer, will be there until at least the end of 2016.

And it was particularly pleasing, I think, we noted that at that point in time we were able to extend those contracts at pretty much exactly the same terms as they were previously written on. So no real change in the cost to us of those reinsurance arrangements, and, therefore, no real change in the amount of profit they will generate for us.

And we also found at the time that we were looking to review them that there was more demand for reinsurance participation than we were able to satisfy in the supply that we had. So it was encouraging to see that there was enthusiastic embracement of the Admiral model until at least, as I say, the end of 2014.

And the other element that supports this model is, of course, our Solvency capital requirements on the proportion that we hold. And I can say to you now that the work that we're doing -- have been doing, which is quite extensive work, to get us ready for the Solvency II environment indicates that the Solvency II regime will look very similar, in terms of overall capital requirements, for us to the current regime. Therefore, I'm not anticipating any real change in our capital needs going forward once we've embraced, as and when that requirement comes in.

So there's no reason in my mind to think anything other than this kind of level of return on capital should be what you would expect from Admiral going forward, all else being equal.

Now I don't very often talk about the balance sheet when I stand up and talk at these numbers, but I thought I'd say a couple of words on it this time around.

Two elements to this slide; on the left-hand side is our balance sheet. As you can see, two points to note really. One is that the numbers have grown quite substantially year on year, for the obvious reasons, and we're now managing about GBP1.4 billion of assets on our balance sheet.

But the second important thing to note is that our investment philosophy remains exactly the same as it always has; there's no change. So our view has always been, and it remains the case, that we view capital security over and above absolute return on investments and, therefore, we hold our investments in cash and money market funds.

And the 62% -- nearly two-thirds of the number is in UK sterling-denominated short duration money market funds, and the balance is in cash and short-term deposits. And that remains the position, and will for the foreseeable future.

And then on the right-hand side I've put a slide which I, unashamedly, have stolen from one of our competitors. They presented their numbers in this way a few months ago and I thought it was a particularly helpful way to show it so I've deliberately copied it.

And this shows very clearly, I think, the Solvency requirement in the light blue under the current Solvency regime, under the Insurance Group directive, which would calculate that we need to have held[ph] about GBP109 million at the end of 2011. Against that it shows the net assets that we actually hold against that number, and the figure is GBP332 million. So that shows that, overall, our coverage over our Solvency requirement is some 300% plus.

So that, for me, I think illustrates the point that in my mind Admiral is both prudently reserved in its claims reserves, and we have always tended to book loss ratios well above the ultimate expected outcome for those loss ratios; and, even over and above that, we are somewhat prudently capitalized against the current requirements that we have.

So, pulling all of that together, we end up with this slide on dividend, which is a very familiar slide to anyone who's been to these presentations before. It's, I think, our 15th presentation since we floated the Company, and this is about the 15th time we've shown this slide.

It's very simple; our dividend policy remains unaltered. It is that we will pay out all of our spare cash at the end of each period. We have a policy of paying out 45% as a normal dividend and then anything else as a special. And, once again, there's another special.

And the calculation is very straightforward, as well. We show our net assets at the end of the period, take off the goodwill, our Solvency requirement, our buffer. And this time around it leaves us with a figure in the bottom-right there of GBP99 million, which is the dividend we intend to pay in a couple of month's time.

And that dividend, when divided into all the shares, is 36.5p per share, which means that overall the dividend is 75.6p for the year. Both the final dividend and the full dividend are both new records for Admiral Group; it's up 11% on 2010's dividend. And it does, once again, represent a pay out ratio on post-tax profits in the 90%s. This time around it's 92% of our post-tax profits, and that really is testimony to the Admiral model.

The dividend will be paid on June 1.

And that's it from me. Thank you, very much. I'll hand you over to David.

David Stevens {BIO 6807391 <GO>}

Thank you, Kevin. Good morning. I'm going to do three slides on the UK market as a whole and then roll onto talking about Admiral's performance in 2011, in particular.

You'll be familiar with most of the slides on the UK market, certainly with this one, which is the distribution slide showing the growth of price comparison over the last few years, with the share of new business going through price comparison in 2011 rising up to almost 60%, from 52% the previous year.

It's quite striking, I think, to look back only four years to see a time when half the business was transacted via the phone or over the counter, which is offline on this graph. And that proportion has shrunk over the course of four years to less than one-quarter.

I think it's also another small milestone on the road towards domination of distribution by price comparison; namely, the arrival of quotemehappy on price comparison sites at the end of 2011/early 2012, which brought Aviva with a direct brand onto the price comparison and leaves the last big insurer holding out in terms of putting a direct brand onto price comparison, having changed that policy.

Another familiar graph is our graph showing rate changes. We show here the rate changes for the surveys; two of which focus on price comparison, Confused and IGO4, and the AA survey. And you can see it was a year of two halves. The middle of 2011 marked the point at which the rapid premium increases that started in 2009 came to an end, giving a series of increases that equate to roughly 50%, according to price surveys. Now, as we've discussed before, and as you'll be familiar with from FSA returns and such like, these price surveys do not translate one for one into actual experienced price increases.

Second half was very different from the first half. We've seen the market down 1 point, maybe 2 points. In our view, the AA is less valuable as a guide to what's really happening in the market, and I think particularly the quarter 4 result looks like a rogue result to me. So although we're showing an average of 8%, when you average across the three surveys for 2011 as a whole, 5%, which is the average of Confused and IGO4, is, in our view, a more realistic view of what actually has happened.

Moving onto the regulatory changes, obviously an important area in car insurance at the moment, referral fees for personal injury is becoming almost old hat. But there is some update that's appropriate to give; namely, the delay of the relevant legislation, which now looks like it will be coming into force in April 2013.

But I should caveat that by saying that the Government does have the ability to change legal costs payable, particularly on small bodily injury claims, by dictat rather than by primary legislation, and so it's not impossible that a change on legal fees might happen before April 2013. And, were that to happen, it might have implications for the roughly GBP7 a vehicle that we earn on personal injury referral fees.

When we talked last time I flagged the OFT survey that was a very extensive survey on a number of aspects of the car insurance market. They reported in December, and the survey now down to -- the work they've done now down to a small area, and specifically to credit hire, where they're looking at the way credit hire works in the UK with a view to reporting in May or June of 2012.

It's unclear how they're going to report what conclusions they'll come to. It's a really knotty problem that a number of people have worked on over time, but it is possible that the conclusions they come to puts at threat some or all of our credit hire referral fee income. Analysts have talked about that as being GBP5 to GBP6, which is not an unreasonable number.

What are the implications for Admiral? Well, over the course of 2012 and 2013, probably more likely 2013, you might expect to see some reduction in our revenue from referral fees.

We would expect to see an offsetting improvement in claims costs as some of the dysfunctional elements of both the legal process and the provision of hire replacement cars some of those dysfunctional elements are reformed and improved.

And, as we said in November, pretty much all the major players receive referral fees as part of their business model and, therefore, any change in referral fees does not change the relative competitive position in the market.

I'm now going to go on to talk about Admiral's own performance. Those of you who have been to a number of these will know that we tend to do an update on ultimate loss ratios at each half year based on independent actuarial analysis.

What we've done this time is we commissioned a piece of work. We commissioned a review of our results at the end of quarter 3 because of the volatility experienced during quarter 3 and so what I'm going to do now is talk you through the movement from quarter 2 to quarter 3, and then the movement from quarter 3 to quarter 4. No, I'm not. I'm going to get on to that, sorry.

First of all, I'm just going to take you through a few headlines, the headlines on the UK Car Insurance results. The profit up over GBP300 million for the first time; turnover knocking on the door of GBP2 billion.

UK vehicle count's up just over 20%, but with very much again a year of two halves; 15% in the first half, 5% in the second half, 2% in the final quarter.

Ancillary income, GBP76, down from GBP77 the previous year; a growth-sensitive measure.

We're introducing a new measure here, other revenue. Essentially, the difference between other revenue and ancillary income per vehicle is that it includes installments income, and that equates to GBP84 in 2011, GBP84 in 2010. We're introducing this measure for two reasons. Installments income's a bit of an orphan; it doesn't really fit anywhere and we feel it's appropriate to include it here. And we think other is a more accurate description of what's included in this category than ancillary.

GBP6 million reserve release in the second half, GBP10 million for the year as a whole; 15th reserve release since the IPO. Gave us a reported loss ratio of 77%; up from 68% the year before. Most of that move from 68% to 77% is attributable to the lower reserve releases in 2011 and 2010; two-thirds are attributable to that. And one-third is attributable to the fact that the loss ratio prior to releases moves up from 77% to 80%.

I'm now going to show you the movement in ultimate loss ratios from quarter 2 to quarter 3. The two main conclusions from this graph, where you are showing the results of quarter 2 in yellow and the results quarter 3 in blue, are a gratifying performance on the back years where a number of years improved projected ultimate loss ratios, but, as we discussed in November, a disappointing performance in relation to 2010 and '11.

Just to recap a bit of that conversation in November that we had, essentially, the main reason for the movement that we've seen in this quarter is in 2011 accident year a larger volume of bigger bodily injury claims coming through as new claims.

And in relation to the 2010 accident year, a number of claims which we'd recognized in 2010, as we gained more information on them, we came to the conclusion that they need to be reserved more cautiously. So, again, there was a bigger proportion of large bodily injury claims affecting the ultimate projection.

Now if I then roll forward from quarter 3 to quarter 4, how does the situation change? It doesn't change a lot. The ultimate loss ratio stayed very stable; 2008 improves by a couple of points.

Now, given the size of the price increases that we implemented in 2010 and 2011, a 3 point reduction in loss ratio between '10 and '11 is much less than we would have anticipated. And what actions are we going to take in that context?

The actions we have taken are, first of all, to really make sure we get the best possible understanding of the claims patterns that we've experienced. And there's a couple of things we've done in that context. One is that at the end of quarter 4 we commissioned a full actuarial review from a second independent actuarial consultant, alongside our existing independent consultants. The conclusions they came to were very much in line with the current actuarial consultant that we use, which was gratifying.

We also, in November and December, asked two law firms that specialize in bodily injury claims to have a look at a small sample of claims and assess the validity of the reserves on those claims, based on their competence and knowledge of what's the appropriate level of likely outcome on bodily injury claims. And that small review came with two conclusions.

First of all, it reassured us of the robustness of our large claim reserving. And by robustness I mean it reassured us because there were none of that small sample which were reserved below the likely outcome, as the lawyers saw it; and the vast majority of the claims were reserved above the likely outcome, which has always been our policy in terms of reserving large bodily injury claims.

The other element of the piece of work they did was to look back at a small sample of claims that were registered in 2009 as large bodily injury claims and do some comparison of the level of conservatism on initial reserving early in 2009, early claims in 2009, early claims in 2011. The conclusion from that piece of work was that there was some evidence of an increased conservatism in the initial level of reserving on those larger claims.

Once we had these conclusions, late last year, we commissioned one of those two lawyers to then extend the scope of the survey to a much larger sample. They took a large number of claims, equating to about 20% of our outstanding reserves, up from about 1% on the initial survey, and that supplemental review, which was completed a few weeks ago, confirmed the conclusions of the first review.

The next thing we sought to do is we sought to improve the loss ratio outcome in 2012 through a number of different actions. One of those actions is simply to implement higher relative price increases in the market.

We've put in 15% on new business and renewal rates, versus the sort of 5% that IGO4 and Confused is showing for the market as a whole new business. And obviously we've seen that feed through to out competitiveness, particularly on price comparison sites, which peaked in March/April of 2011 and fell through the course of the year. And that's reflected in the reduced vehicle growth that I mentioned already of 15% in the first half and 5% in the second.

We've implemented about 20 or 30 rate changes during the last few months. And the balance of direction of those rate changes has been to move our portfolio away from those areas which are particularly prone to bodily injury, particularly those areas prone to large bodily injury.

We're always going through a process of constant refinement of our rate structures in order to move away from areas which are giving us a slightly worse loss ratio and towards areas giving us a slightly better loss ratio, and that's a part of those 20 or 30 changes that we've made. But there's also an element of precaution there in the sense that we've had a bias towards moving away from bodily injury areas, at this juncture, as we seek to take some elements of volatility out of our business at this particular point.

Now the changes are -- I'm not going to go into detail on the specific changes. But, as you can imagine, given that their general direction has tended to steer us away from bodily injury, it's tended also, therefore, to steer us away from younger age groups and some geographies.

And the last thing we've done is to accelerate a number of initiatives which we think will further improve our risk selection, and these initiatives some of which have already been implemented in the business, and some will come to fruition in the next three or four months.

We do also, of course, continue to focus on keeping our costs low, and 2011 gave us our lowest ever expense ratio at 13%, despite the considerable[ph] quite rapid growth of 21% in the book, where new business tends to have a higher expense ratio than renewal.

If you combine those two, as we normally do, you have a comparison of our results on a combined ratio basis, in blue, versus the market, in red. Our track record of forecasting the market's combined ratio is mixed, but it's probably going to be somewhere like 105 to 107, give or take a couple of points.

So our combined ratio advantage is around 20%, or a bit low -- a bit below that. Now that equates to, roughly, the combined ratio advantage we had in 2005; at the time, we were about just over one-third the size we currently are. And it's not an entirely coincidental comparison inasmuch as 2011 and 2005 are both years where we have followed a year of 30% plus vehicle growth.

One of the things that we've experienced over the last few months, or come to believe over the last few months, is that we haven't necessarily delivered our results in as clear a fashion as we could, particularly for our investors. And one of the reasons for this is we use a large number of different ratios.

So we sometimes talk about underwriting year, underwriting year book, underwriting year ultimate; we sometimes talk about accident year, accident year book, accident year ultimate; and sometimes talk about reported year net of releases, gross of releases. Six different loss ratio measures. On expense ratio we sometimes talk about earned expense ratio, sometimes written expense ratio. Combine those two and you get 12 different combined ratio measures.

Our intention, going forward, is to simplify our presentations to avoid spending the first 10 minutes of investor meetings having conversations like, well, no, that isn't directly comparable with that because this is that measure, and this is the other measure, and focus on a narrower range of measures.

And one that will, of course, be there is the reported combined ratio, the reported loss ratio. And this exhibit shows the history of reported combined ratio over the last few years, with a deterioration in 2011 from 2010 heavily driven by that 6 point move in the size of the reserve releases.

Prospects for 2012. Vehicle growth will be slower in 2012 than 2011. If we maintain our current level of competitiveness, we'd anticipate the growth on the vehicles will be in the order of 5% to 10%. That has -- we've talked in the past about how slow vehicle growth tends to knock on to our preferred measure of other income per vehicle, so that might create some move down there.

On the other hand, the changing mix of new business and renewal, where we will be more new business than we have been in both 2010 -- sorry, more renewal than we have been in both 2010 and 2011 should have a positive impact notably on the loss ratio.

We've maintained our buffer of reported loss ratios over expected ultimate loss ratios. And if our ultimate loss ratio stays stable then we would anticipate, therefore, further reserve releases in 2012.

And we're continuing to work to refine our rates, take advantage of the increase scale that we have, the increase data that we have; respond to changes in the outside world; and improve the quality of our risk selection; and innovating claims management, which has always been an important part of maintaining an advantage on the loss ratio versus the market as a whole.

The last thing we'd like to do in 2012 is improve on our 2011 Sunday Times Best Companies to Work For performance. We were very pleased to go up from ninth year before last to sixth at the end of last year, particularly pleased.

As Kevin mentioned, a lot of the remuneration for our staff is based on shares, and this particular survey took place towards the end of last year after a period of significant share price reduction and so we were very gratified to see our staff giving the Company such high marks in terms of a really good place to work for.

And I was at the awards ceremony a couple of weeks ago and there are some thumbnail sketches of some of the winners of the awards. As well as ourselves, Goldman Sachs has actually been a company that's featured on occasion in the awards. And I did take away one observation, which is in the thumbnail sketch it had the percentage of employees who were paid over GBP35,000 in each of the companies; and answer for Admiral is 3%, and the answer to Goldman Sachs 97%. I just loved the symmetry.

And, on that note, I'll hand you back to Henry.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, David. Today, the UK business is what the Admiral Group is all about. But we have planted some seeds for our future elsewhere, and I'd just like to take a couple of minutes to explain what happened in our little non-UK garden in 2011.

First, 2011 was actually a rare year in that we did not launch any new businesses. 2011 was the first full year of our French operation, L'Olivier, which launched on December 23, 2010.

In the US, we're now trading in four States; Virginia, Maryland, Illinois, and Texas, having added the latter two in 2011. So I did say we didn't launch any new businesses, but if you look at the size of Illinois and Texas they are as big as many countries. In just these four states we have now access to a vehicle population larger than the UK.

Of all the many facts and figures about the US market, the one that gives me the most confidence is that online shopping for car insurance is growing at a 20% per annum clip.

With the expansion potential of this business, Kevin has actually moved to base himself in Richmond and oversee Elephant. This brings to a close Kevin's leadership role in Confused. And he has been replaced in that capacity by Nic Weng Kan, formerly Head of Operations in the Insurance business. Nic's place as Ops Manager has been taken by a gentleman named Chris Price, who for many years has been the Chief Executive of Gladiator, our van intermediary.

I don't plan to go into detail on all the other markets, just to say that they all present their own unique challenges with different competitive landscapes, and that they're all in different phases of the car insurance cycle. Success in these markets will take time, but we are committed to making them work; taking our time, without wasting our money. This is a very important note because we do see some competitors with a very different strategy; one where they run up very large losses, while growing the book very quickly, and then they hope that scale will carry them to the promised land of profits.

Our strategy is different. It is much more about keeping current year losses to a minimum, but probably taking a longer period of time to build scale in the hope of reaching the promised land of profits.

And we are starting to build some growth momentum with premiums outside the UK up nearly 60%, and customer numbers following at 57%. We saw good growth in ConTe.it Italy and Elephant in the US. As it was L'Olivier's first year, clearly, it was all growth. The market where the growth is coming most slowly is Spain. We are growing in this market, but we are doing so cautiously.

The loss ratio deterioration was due to the newer markets, as you might expect, but this was more than offset by the expense ratio gain due to adding to the vehicle count.

One thing that does unite France, Italy, and Spain is that price comparison as a shopping channel is growing quite quickly in all these countries. As you know, we have price comparison businesses in all three. We're enjoying good growth in France and Spain; however, we are finding Italy a bit more challenging, to the point where we are reviewing our options with Chiarezza.

The 122% growth in quotes to nearly 4 million means that these are exciting businesses. Not only are we pleased with the growth in car insurance comparison, but Rastreator and LeLynx are both building strong brands in Spain and France, respectively.

All in all, as you can see, the cost of these investments is modest; 2011 costs just GBP1 million more than 2010. And as a percentage of profits, these investments cost just 5%, down from 5.4% in 2010. But please note, we do not have a target figure of exactly what to spend as a percentage of profits and we might find this figure goes up if we believe it worthwhile to add to the investment of one or more of these businesses.

We're very pleased with the teams we have in place in each of these operations and, in summary, we are making steady, if unspectacular, progress on the international front.

The final topic for today's presentation is about the future. I want to make sure investors are clear to what we're trying to achieve. It's not complicated, and it won't take long to explain.

Right now, we've got a fantastic UK business that has, in 19 years, grown to insure 11% of the UK market; we've got fledgling insurance businesses in four other large developed markets; and we've got a growing expertise in price comparison in four countries.

The plan is to keep moving forward in the UK, while working hard to create growing profitable, sustainable businesses in Spain, Italy, France, and the US. In the near term, we are going to bed in the operations currently started with much less new build. However, we do see ourselves as a little speedboat in a world of super tankers and so we reserve the right to be opportunistic, where appropriate, be it for organic developments, acquisition, or partnership.

That's it. Quite simple. If you sneezed, you probably missed it.

I'd like to finish with a recap of 2011. On the screen are the key facts from our results and we enter 2012 with confidence, knowing we are well positioned to grow profitably and deal with the challenges that arise every day in our business.

Now I said I wanted to finish with a recap of 2011, but I lied. What I really want to finish with is this. We take great pride in being the sponsor of the Triple Crown winning, and soon to be Grand Slam winning, Welsh rugby team.

Thanks for your attention here this morning, and I now look forward to your questions. Thank you.

Questions And Answers

Q - Greig Paterson

Greig Paterson, KBW. Three questions. One is could you just give us the underwriting year ultimates 2008 to 2011 so that we can compare it with the books, as opposed to having to play around with the numbers to get that answer?

The second question is just in terms of you made a comment that Fourth Quarter was better than Third Quarter. I wonder if you could just talk about whether it was frequency or severity, large or small that went into that statement.

And the third point is you mentioned that you thought your vehicle growth would be 5% to 10% this year and that was a run rate. That's obviously premised on a view on what you're going to put through in terms of base rate. I wonder if you could just give any idea what you think the market's going to put through and what you plan to put through in terms of base rate so we can have some kind of context to flex it if things start changing over the year.

A - David Stevens {BIO 6807391 <GO>}

In terms of the underwriting year ultimates, could we pick that up afterwards?

In terms of the growth comment, I think our view really is that the market is likely to be flat in 2012, as a best guess. Our experience in January and February has been consistent with that view.

And on Q4, well, it's all about big claims. So, in a sense, it was a combination of the number and the value of bigger bodily injury claims.

Q - Greig Paterson

(inaudible question).

A - David Stevens {BIO 6807391 <GO>}

Yes.

Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield, Barclays Capital. Just one quick question, actually. It's around your reserving approach. I think after two or three years, where you've said you've deliberately reduced the reserving buffers because of the improved profit commission terms to try and keep that port[ph] stable, everything you've indicated qualitatively is that you're actually beginning to increase the conservatism in your reserving again.

Am I misunderstanding that? Or do you think you are actually increasing those buffers again in the reserving versus, perhaps, where you were 12 months ago? And is that a -- are we returning to the old position? Or are we just taking a little bit of a bump because of the wobble in Q3?

A - Kevin Chidwick {BIO 15100612 <GO>}

I think the straight question is, yes, we've increased the buffer a bit at the end of the year. And you can see that in the book numbers, and when you do the calculations of the model you'll work it out through.

So in terms of going forward, we've always said we look to maintain a consistent buffer over the medium term and sometimes it'll oscillate around. But, certainly, at the end of the 2011 number it felt appropriate to move it up a bit, so that's what we've done.

Q - Andy Broadfield {BIO 7273415 <GO>}

So that's a sustained forward-looking position now? Or are we -- sorry, it's a bit quiet isn't it? Is that a sustained -- we're now there? Or is this just we want to wait and see how this develops and then we'll return to where we said we were going to be two years ago?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, I think, as I say, we'll look to maintain a consistent level in the medium term. So it might move around a bit period by period so I wouldn't want to give you a forecast of June 2012, but this is a base to move forward from, I suppose, if you take that as a guide.

Operator

(Operator Instructions)

Q - Andy Broadfield {BIO 7273415 <GO>}

On the pricing for 2012, market flat, are you going to be -- you were 10 points higher, I think you were saying, in 2011, would you think that would be a narrower differential? It seems that growth of 5% to 10% looks quite ambitious if you're going to be 10 points ahead of the market given that price comparison is quite sensitive, so how do you square the volume growth with the view that you're still going to be raising prices faster than the market?

A - Henry Engelhardt {BIO 3022947 <GO>}

Right, well, I would say that the volume growth also largely comes from the continued shift in distribution towards price comparison, where we're strong. And we're certainly not going to stand up here today and tell you what our price increases or decreases are going to be during the year.

Q - Andy Broadfield {BIO 7273415 <GO>}

Sure. But it'll be ahead of the market, the implication[ph] of what --

A - Henry Engelhardt {BIO 3022947 <GO>}

We'll tell you in a year.

Q - Andy Broadfield {BIO 7273415 <GO>}

And on the claims trend, you said that Q4 was better than Q3 in the press release. What's happened in early Q1, broadly? Have you seen a mean reversion story, whereby that blip in Q2 and Q3 has disappeared? Or are we still stabilizing at a higher level, compared with where you were before?

A - David Stevens {BIO 6807391 <GO>}

We're not going to comment on quarter 1 at this point because it's just too much of a rod for our own back. If we say something and then March, which is, after all, 33% of quarter 1, behaves in a certain way it just could be potentially misleading. So we're not going to comment month by month.

Q - Andy Broadfield {BIO 7273415 <GO>}

And lastly, in Spain you've got a new brand, I think Globalty, alongside Balumba, what's the rationale behind that? And do you plan to have, perhaps, a multi-brand approach in other overseas markets?

A - Henry Engelhardt {BIO 3022947 <GO>}

Yes, in Spain, the business being attracted by Balumba is largely younger and more Internet based, and probably a lot of that is down to the name. So we're looking at other names, not just Globalty, we're looking at other names too to introduce that would attract a different segment of that market.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. There's three questions, but there might be a couple of bits in each one. The first bit is related to the growth, and I guess it's the same question really. What does the 5% to 10% equate to in terms of price comparison growth? Is there a base line price comparison growth behind that?

And I guess what I'm trying to think of is, if I take 5%, given that your reduced competitiveness in 2012, and I'm trying to work out what the average premium per vehicle's going to be, whether the top line is actually going to fall in 2012. Because, obviously, if you streamed out the high risk cases your average premium per case is probably going to come down.

And could you also comment on the fact that you may have reduced premium rates by 5% in January? Is that true?

And following on, and it's a clarification question, I guess, sorry. The clarification question is on what you said at Q3 on the large bodily injury claim versus what you're saying now.

I understood at Q3 you'd said that the large bodily injury claim was spread across the new business that you'd written and the old book and there was no direct link to the new business that you'd sold during the growth period. And reading the press release today, you seem to be saying it's a function of the growth that we've had in the past couple of years. Could you just clarify which one is correct, and what I'm getting wrong there? Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

David, do you want to -- I think you can tackle most of those.

A - David Stevens {BIO 6807391 <GO>}

Well, let me see. I'll do some of them, but I'm not sure I captured them all. No, we didn't reduce rates in 5% in Jan.

5% to 10%, how does that compare with price comparison growth? Price comparison grew early double-digits last year. Obviously, it gets harder as you get bigger and bigger, once you're up to 60% of the market, as they are, so we're anticipating perhaps late single-digits for price comparison growth.

The average premium that we write in 2012 will be lower as a result of some of the price changes we made in the last few months than it would have been had we not made those price changes. It's only two months in and we're in constant process, as implied by those 20 or 30 changes, of making changes so to actually speculate as to how that goes for the year as a whole would be premature. But it will be a factor on the top line.

A - Kevin Chidwick {BIO 15100612 <GO>}

Q3 claims and new business versus existing business. I think it was where does the claims inflation come from, or claims problem?

Q - Andy Hughes {BIO 15036395 <GO>}

Where was the large bodily injury claims come from, because I think you said --?

A - Kevin Chidwick {BIO 15100612 <GO>}

Was it new business stuff, or was it the old book[ph]?

A - David Stevens {BIO 6807391 <GO>}

Well, more than 60% of the earned premium it relates to new business. New business has always had a tendency to have a higher bodily injury propensity and so the biggest issue was around new business in terms of 2011. We have had bodily and big bodily injury claims in relation to renewal, so there's also a bodily injury experience on renewal so it's not unique to new business.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg Bank. Just two questions, please. The first one, can you confirm that there's no loss cap on your reinsurance arrangements, and that there's no other reason why, in the very hypothetical situation where you had a very high combined ratio, say, in 2012, there should be any reason you should be exposed to the downside risk on that business?

A - Henry Engelhardt {BIO 3022947 <GO>}

That's correct.

Q - Peter Eliot {BIO 7556214 <GO>}

Second question --

Q - Unidentified Participant

(inaudible).

A - Henry Engelhardt {BIO 3022947 <GO>}

Sorry?

Q - Unidentified Participant

But isn't there a loss --?

A - Henry Engelhardt {BIO 3022947 <GO>}

Not on the main contractor.

Q - Unidentified Participant

Admittedly, after 130 balance sheet take another 20[ph] on the quota shares.

A - David Stevens {BIO 6807391 <GO>}

No, the co-insurance deal has -- is infinite. The quota shares have combined ratios of, tops, the order you're talking about.

Q - Peter Eliot {BIO 7556214 <GO>}

Second question, last time we met you were talking about an in-house legal department, possible set up of. Obviously, we've had a few months further down the road now and I was wondering whether you'd had any further thoughts on that.

A - Henry Engelhardt {BIO 3022947 <GO>}

We're considering our options. The legislation hasn't been written yet, fully explained for what will happen with referral fees, so we're standing by to see what gets written.

Q - Colin Simpson {BIO 15894636 <GO>}

Colin Simpson, Goldman Sachs. Just a question on your reserving review. I noticed RBSI put out a number of 252 reserves per claims paid, I wonder what that number is for you and whether you think that's worth focusing on.

Also, related to that, I wasn't sure whether your review of the reserves extended to the increased propensity to award PPOs, and maybe a PPO IBNR, whether that's required.

A - David Stevens {BIO 6807391 <GO>}

The Direct Line number is an interesting number. I think you want to be careful making comparisons because I think it's potentially influenced by your rate of growth over time and so it's not necessarily directly comparable number between Direct Line and every other player in the market.

PPOs, historically, we have between five and 10 PPOs. They're not a huge amount of what we've spent, or what we are spending on claims, but PPO is all about the future rather than, in a sense, the past. What we have is we have a separate and explicit allowance in our ultimate loss ratio for PPOs, which we are told, both by both independent actuarial consultants and our auditors, is more conservative than the norm for the industry as a whole.

Q - Paul Guess

Paul Guess, RBC. Just a couple of questions. First one was on the installment income. Now that you rolling this together with the ancillary into other, do you see this as a way of replacing lost ancillary income, as and when the referral fees get taken out?

Second point was just on we've seen a few things recently in the market, people launching telematic products into the UK car insurance market. I know you have a product in that market, I was just wondering where you see the growth in that market, and how much you've seen this year, I guess.

A - Henry Engelhardt {BIO 3022947 <GO>}

The installment income was always there, it was just separated from the rest and, therefore, as you sort of assumed, it wasn't there at all, so we have moved it in so that it's more clear. But it's not new income; it just was in a different pot.

And the telematics?

A - David Stevens {BIO 6807391 <GO>}

Yes, we've run a couple of tests, and the more recent test in the second half of 2011 was a rather bigger one, to try and understand the right way forward on telematics. It's interesting, but it is, as we've often said, a high expense option. And it's also not 100% straightforward where the loss ratio benefit comes from and so product design is really important. And we think we're gathering a lot of useful information to understand whether it's just going to be a niche product for very high premium players, or whether, particularly as the technology involved, it might be something bigger than that.

Q - Tony Silverman {BIO 2162363 <GO>}

Tony Silverman, S&P Capital IQ. I was just interested in the comments in the press release that you've increased the volatility by increasing the profit commissions, so if the combined ratio moves up or down just a couple of points it adds or subtracts tens of millions from our bottom line.

Just in the interests of keeping things simple, I wonder if you could give us what that number is so that, wrapping up the profit commissions as well, what is a 1 point movement in the combined ratio? What is the impact on the profit?

The second question was the GBP41 million increase mentioned on slide 26 for total premiums in the International. I wonder what -- how much of that is the US? Or if it's there, I missed it, but if you could let us know how much that is.

A - Henry Engelhardt {BIO 3022947 <GO>}

Sorry, the second question is?

Q - Tony Silverman {BIO 2162363 <GO>}

How much of the GBP41 million increase in total premiums for International was from the US?

A - Henry Engelhardt {BIO 3022947 <GO>}

Well, we're not delineating figures for the operations. The US, though, I would say, was a modest proportion of that. It was not the dominating factor there.

The PC number, you can't give an exact number because some of the deals, 1 point at 88/87 is different than 98 to 97 in terms of the profit commission so I cannot give you a single number that you can just sap in 1 point equals x. And, unfortunately, by contractual terms, I can't reveal the terms in the agreement either, so you can't see those numbers, sorry.

A - Kevin Chidwick {BIO 15100612 <GO>}

If it is helpful, there is a note on page 54 of this pack, not the presentation pack, but the accounts pack.

Q - Tony Silverman {BIO 2162363 <GO>}

Yes, that's just been pointed out to me. That is helpful, thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

Which has the sensitivity in it year by year, which -- if that helps you.

Q - Unidentified Participant

Could I ask, the Q3 IMS statement, you were musing over what lay behind the rise in large bodily injury claims and I think you discounted it being an industry feature, and I think that's probably right. But you did talk about -- or try to work out how much of it was random and how much of it was related to the growth in your book.

With the experience, five months -- or four months' more experience, can you talk a bit more about that? Talk about things like the claims ratio on new, or 2010 versus -- and 2011 business versus renewal business to see whether it was imported onto your books?

Then secondly, can you talk a bit about the proportion of the rise in the claims' ratio, which was attributable to 2010? You said that you had to reassess a number of the large claims, is that -- can you go into that issue in a bit more detail and give us some comfort that, that won't happen again for 2011?

A - David Stevens {BIO 6807391 <GO>}

Okay, let me start at the end, with the 2010 point. The most obvious way of answering is to say that the experience in quarter 3, where we saw some large bodily injury cases emerging on 2010 accident year claims, moved the ultimate loss ratio for that year by 3 points. So that's a measure of the materiality of it.

In terms of whether it will happen again, in some senses, it sort of gets baked into the projections of ultimate in the sense that, that pattern for 2012 -- 2010 happening in 2011 then becomes quite an important driver of what you project for 2012 outcomes on 2011. So one answer is, in a sense, the assumption that, that reoccurs is sort of in the ultimates.

In terms of our view on what really happened in quarter 3, I don't know, I'm tempted to quote Zhou Enlai with his comments on the French Revolution; people asking whether he'd been successful or not, and he said, ask me later, or something like that. It won't take 200 years to know, but it really will take two or three years to be sure.

All one can say is that the fact that quarter 4 didn't replicate quarter 3 supports an argument in favor, an element of randomness. You could also say that some of the work we've done around reserving would support a view that maybe some elements of it is increased conservatively.

In diving into the portfolio, we've sought to really find out if there are subsets of the portfolio which are causing more of a problem than other parts of the portfolio. There aren't really strong patterns that say, gosh, the new business has gone off wildly and the renewals has stayed where it was. But we do think, in the 20 or 30 changes, not all of those relate to this, but a number of those changes are seeking to isolate pockets and say, maybe, that's a type of business we really, with the benefit of hindsight, shouldn't have written, and to learn from our increased scale.

Now, it's doubly difficult in the context of a pattern that's driven heavily by bigger claims because of the randomness, which is, of course, much more magnified at small subsets of the accounts. But I think all we can say there is we hope that -- we expect that the changes we've made in the last six months will have a positive impact on 2012.

To actually unpick exactly what happened in quarter 3 is really difficult; it's a combination of these types of factor.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. I realize before I only asked two questions, so I'm coming back with a third one. So, just clarifying on the question I asked before about the average premium coming down, is there any guidance you can give? Is your average premium higher than the market average premium, and by how much, in terms of judging where the top line's going to be going over the next year?

And is the non-high bodily injury claims, isn't that a lot more competitive? Because haven't a lot of other people said the same thing, effectively; we're going to focus on the non-bodily injury claims exposed part of the market? It seems to be everyone seems to be targeting the business that isn't the bit you're -- oh, forget it, you know what I mean?

And the second question was on the Ogden tables. Obviously, we've had Ogden 7, now that must be somewhere in your large bodily injury claims numbers, interested in how much that is.

We've got Ogden 8 next year, and we've got the discount rate potentially changing. As you know, I flagged something to do with the Association of Personal Injury Lawyers, who've been told the review's coming up pretty shortly for the Ogden discount rate, just trying to get your view on that and the impact, please. Thank you.

A - David Stevens {BIO 6807391 <GO>}

I think on the average premium point, it's a question of degree. You asked the question how different we are. If you take the FSA returns for 2010, and compare the average earned premium for 2010 -- no, sorry, treasury returns, which doesn't cover the whole market, but it covers a big chunk of it, and you compare that with our average earned premium, our average earned premium is 25% to 30% higher than the market as a whole.

So that's a reflection of the sort of business we write, and of course a bit of a reflection of the new business renewal mix.

And when I say that it's moving in a precautionary move towards lower bodily injury intensity, I'm not saying that now we're Saga; I'm saying that, that gap is likely to narrow but it's still going to be very, very substantial.

A - Henry Engelhardt {BIO 3022947 <GO>}

The Ogden tables?

A - David Stevens {BIO 6807391 <GO>}

Ogden tables. Ogden and PPO, they do heavily interact. There has been, and there will always be, a threat that the Ogden discount rate is substantially reduced from 2.5%, while the real return on index-linked gilts is of the order of 0.5%, and obviously the defendant lawyers are lobbying hard for a reduction.

We have got a pot of money which is in the ultimates which protects us, we feel, to a reduction to 0.5%. I personally would be surprised if there's a reduction, certainly a reduction to 0.5%.

One of the points that the ABI made when it went to a recent prime ministerial summit on car insurance, where the Government is very driven to try and reduce the cost of living in difficult times, and car insurance is a very political issue for that reason, is whatever you do on whiplash, on legal fees, on some of these other very high profile variables you blow it away if you take the 2.5% down to 0.5%. It does have a material impact on the premiums people pay. So that creates a lot of, I think, political pressure on that not happening.

Having said that, we do have a substantial pot there, were it to happen.

Q - Andy Hughes {BIO 15036395 <GO>}

Ogden 8[ph]?

A - David Stevens {BIO 6807391 <GO>}

If you look at the level of inflation on big claims, it averages 7%, 8%, 9% a year, and has done for years. And so you get a significantly higher rate of inflation on big claims than you do the underlying level of inflation in the market. And one of the reasons for that is because Ogden 3, 4, 5, 6 and 7 comes along because new JFD[ph] guidelines come along on pain and suffering because lawyers find new and interesting damages to claim for, or elements of compensation to claim for.

And so, yes, any move from Ogden 7 to Ogden 8 these things will have an inflationary impact, but that's the world you live in with big bodily injury claims. I don't think it's limited for step change; it's just part of that overall underlying level of 4%, 5%, 6% real inflation on these claims.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Securities. I've got three questions, please. Firstly, on the reserve releases, I note that most of your reserve releases -- or most of the increase in your reserve releases came from the 2005-2006 years. That was a significant contribution to the GBP10 million that you released in 2011.

Clearly, the business was a lot smaller back in '06-'07 so should we be factoring in a much lower level of reserve increases going forward when you've exhausted those '05, '06, '07 reserves? Or do you see the reserve increases you had to make last year as being a sort of blip that will reverse out in the fullness of?

Secondly, probably following on from that, your profit commission, I know it fell from GBP45 million in half one to about GBP16 million in half one, and I was looking for the breakdown of profit commission by underwriting year, but I think you've taken that out. Could you just confirm that, that really relates to the reserve increases you've seen in the 2009 underwriting year, and the lower combined ratio in half two?

And thirdly, on negative IBNR, I was quite interested in this last year. I think you had GBP99 million of negative IBNR across the UK Group, or GBP82 million in Gibraltar at the end of 2010. I note your gross claims reserves have gone up by about 70%/80%. Can you just tell me what the figure is for the UK in aggregate and for Gibraltar separately for the end of 2011? Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

Thanks, Marcus. I'll take that one. I don't know the exact number for negative IBNR so I'll take that one offline, Marcus, and I'll come back to you with that figure. But it is the case, as we said, earlier on, that we have booked the loss ratios a little bit higher at the end of 2011 to raise the level of the buffer overall, and that kind of relates to the answer to the other two questions.

I think you're quite right in terms of reserve release patterns, previously. And we won't see them returning to the levels of high mid double-digits that we saw in the mid-2000s, but I would expect them to increase above the level we've seen in 2011. So we did about 8% in 2010, about 2.5% in 2011; I'd expect it to be more like the 2010 experience in the future, all else being equal, if nothing else changes in terms of ultimate projections. So somewhat higher than the lower level of 2011, going forward.

And the profit commission is a factor of the very point you mention, you're quite right on that point, in terms of the changes in the second half of the year in terms of booked numbers for '09, '10, and '11. But also, it's a part, a fact of the earning pattern of the profit commission in '10 and '11, which has got more earning power in the first half of the year than in the second half of '11.

Q - Unidentified Participant

Can you please explain in more detail the risks to your business model? We have seen your share price fall close to 40% in 2011 and many analysts talk about the fact that your business model might be impaired, and the reinsurers might walk away, etc., etc., and I want to better understand the robustness of your business model. What needs to happen for reinsurers to walk away from your business? If you can talk more in detail about it, please. Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

Well, fundamentally, we have to go -- we'd probably have to get very close to a combined ratio in the UK of 100 for the reinsurers to be in doubt. I think the reinsurers look at our business as a bit of a banker because they get a fixed amount, the non-Munich Re deals, and they get that up front, at the top end. So it doesn't matter how good we do, if we just do better than 98, or so, they get their money.

And for them it would appear to me to be a nice, safe rump of business. They're out there insuring the Japanese coastline, and the plains of the Midwest, and that sort of thing, much more volatile areas of insurance, and UK Car Insurance looks pretty stable relative to those, and we look like quite a banker. So the risks beyond 2014, because we have got all the insurers committed through 2014, would be that we become something that they don't believe can occur.

So we have a very, very big interest in providing good results to them, to continue those deals. That's the basic risk.

Q - Unidentified Participant

A follow on to that, please, is many analysts talk about the fact that as you grow market share in the UK your loss ratio will converge with the overall market, although you showed in the results that, actually, your loss ratio hasn't changed from '05, despite being, I think, almost two times bigger than in '05. But can you explain how sustainable is your loss ratio advantage over the market if you keep growing shares and becoming more of the market, please?

A - Henry Engelhardt {BIO 3022947 <GO>}

Well, clearly, if we were 100% of the market then the market average would be -- we would be market average. So in some sense, yes, we're always as we grow going to move towards market average because we're the biggest -- bigger and bigger part of the market. But we do have advantages of scale, and, in particular, you get advantages in pricing. Data is king, and the more data you have the better you should be able to price. And we have a lot of data, and we have a history of using it well. So I see size as an advantage, not some sort of a convergence.

Remember, there are 26/27 million risks out there in the UK, and we've got 3 million. So the idea that the other 23.5 million risks are all poor just doesn't stand up to me, so there's still a heck of a lot of good business to go out and get before we hit some sort of a wall.

Q - Unidentified Participant

Two questions. One, I think you talked about large claims in the Third Quarter being -- you were getting 70 to 80 more claims per month than you'd normally get over 100,000[ph]. Can you tell us how that went in the Fourth Quarter?

And secondly, when you refer to a market share of 11% that looks to me to be based on vehicle count across both the commercial and the personal book. What is your market share of the private motor market, based on premium?

A - David Stevens {BIO 6807391 <GO>}

Well, market share on vehicle count is 11%. I said earlier that our average premium in 2010 was 25% to 30% higher than the market so, by implication, our market share on a value basis would be 11% times 1.25 to 1.3.

Q - Unidentified Participant

But that's on the total market, not just the private?

A - David Stevens {BIO 6807391 <GO>}

No, no, that is private market because I'm comparing average -- well, I'm working on the basis of, like, roughly, a 26/27 million private vehicle market. So we're at just under 3 million, so we're around 11% of that market. Now, if you have a different view of what the size of the private vehicle market is then that might be a cause of -- but if that's correct then we're going to be 1.25 times/1.3 times.

I always do the second question first.

Yes well, Andrew, we did use this 70 to 80 and then it keeps bouncing around with various people quoting it in different contexts, what size the claim, and what period, and stuff like that so we're not going to get into conservations around volumes of certain types of claims at certain periods. So, I'm not going to answer, basically.

Q - Andy Broadfield {BIO 7273415 <GO>}

I just want to explore the PPO issue, a little bit more about how you manage it when you have a PPO claim come in. So the first question is how do you manage them today? And are you actually in the process of paying these long-term payments?

And the second is your investment strategy, which, I suppose, as an analyst, it's a relief to see one I don't have to analyze, but the potential that you have to think about your investment strategy, given you potentially have genuinely long-tern payment periods to deal with, do you outsource it? Do you start investing in long-term assets? How should we think about that?

A - David Stevens {BIO 6807391 <GO>}

It's something that we've been doing a lot of work on. The handling of PPOs has been something that we could do on a very ad hoc basis when you've got fewer than 10 of them.

Yes, we do pay them; well, the one's that we've settled. And we do have a process in place to make sure we're paying the right people and that, without being morbid, the claimant hasn't died in the interim. But as they become a more and more important part of the book, I think it does change the way we do our reserving.

I think it changes, potentially, the way we do our reporting because some of these numbers get quite complicated. For example, you have an outstanding reserve, which is an outstanding reserve that might relate to a claim that hasn't settled, but in the PPO world you now have a different outstanding reserve which relates to a claim that's settled but is a function of future payments of a lifetime. And those are, in a sense, two different things.

Your point about investment is bang on. As they become material, we're going to have to think about the interaction of our investment strategy and our liabilities, where the liabilities are 30/40-year long liabilities. And at the moment there is no economic way of offsetting that. There's no way of laying it off to someone else. But that's thinking about the future because at the moment those liabilities, in relation to PPOs to less than fewer than 10 cases, are just not really material in the terms of the balance sheet.

Q - Greig Paterson

Greig Paterson. Your comments about you're reviewing Italy, does that mean you're thinking about exiting? And just wondering if you just want to talk about that a bit.

A - Henry Engelhardt {BIO 3022947 <GO>}

No, we're considering our options. That's all I'll say at this time.

Q - Greig Paterson

Is that because you're disappointed with the progress you've made?

A - Henry Engelhardt {BIO 3022947 <GO>}

It would be strange if we were really pleased with the progress that we, but we (inaudible) options, yes .

Q - Greig Paterson

It's a serious question. Are you --?

A - Henry Engelhardt {BIO 3022947 <GO>}

Yes, and serious answer. But we're considering our options, but that's all I'm going to say at this time.

Q - Unidentified Participant

In relation to the price comparison site?

A - Henry Engelhardt {BIO 3022947 <GO>}

No, Italy just clear answer[ph]. Sorry, we're just talking about (inaudible) as to the price comparison business. That's it.

Q - Greig Paterson

(inaudible).

A - Henry Engelhardt {BIO 3022947 <GO>}

That's it. Great. Exhausted. Thank you, very much. Have a nice day.

Operator

This concludes today's call, ladies and gentlemen. Thank you for joining. You may now replace your handsets.
