S1 2020 Earnings Call

Company Participants

- Costantino Moretti, Chief Executive Officer, ConTe
- Cristina Nestares, Chief Executive Officer - UK Insurance
- David G. Stevens, Chief Executive Officer, Executive Director
- Elena Betes, Online Comparison Portals Director
- Geraint Jones, Chief Financial Officer, Executive Director
- Marisja Kocznur, Head of Investor Relations
- Milena Mondini de Focatiis, Group Chief Executive Officer Designate
- Scott Cargill, Chief Executive Officer at Admiral Financial Services

Other Participants

- Andrew Crean
- Dominic O'Mahony
- Freya Kong
- Greig Paterson
- James Austin Shuck
- James Pierce
- Jonathan Denham
- Jonny Urwin
- Thomas Bateman

Presentation

David G. Stevens {BIO 6807391 <GO>}

Good morning, and welcome to Admiral's 2020 Interim Results Presentation. Thank you very much for participating, and I hope you and yours flourishing in these difficult times. I'm David Stevens, Admiral Group CEO.

Milena Mondini de Focatiis {BIO 18674746 <GO>}

And I'm Milena Mondini, Group CEO Designate.

David G. Stevens {BIO 6807391 <GO>}

With advantage of this virtual format to invite a number of senior managers to participate today. We're going to start with Geraint Jones, CFO who'll talk you through the key financials. And then Cristina Nestares, Head of our UK Insurance operation, will talk about the core business. Costantino Moretti, our recently appointed Head of International Insurance, will talk about our International Insurance operations. And Elena Bets, Head of Comparison Platforms, will tell you how those have performed for us over the last six months. And towards the end, Scott Cargill, Head of Loans, will, you guessed it, talk about our loans business.

Before we start that out, I've asked Milena to give you a bit of an overview of Admiral's response to COVID. Over to you, Milena.

Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, David, and good morning, everybody. These have been very challenging times that we have faced, but Admiral has performed very well, is proven to be very resilient and has focused on the right thing.

I'm hugely proud of how Admiral reacted. I've always been very proud to work for Admiral, but in the last months, it has been heartwarming to see the commitment and the energy of our staff to support customers, each other and the broader community. The whole company is united as ever stood up for its values, adopted quickly, continue to focus on the business, delivering a strong set of results and putting the customer at the heart and the center, and all this despite the disruption. We've been received such a great feedback from our customers, particularly in response to our Admiral Stay at Home refund, as you can see in these slides and which I will talk more about later.

In general, COVID has been a major disruption for everybody, but we're beginning to see the world entering gradually into a new normal. There have been several market-wide impacts, but the two most relevant ones for our core business have been: first, a temporary drop down of customer shopping for insurance, as you can see on the left, naturally partially offset by strengthened retention and now re-ignited; and second, a massive reduction in driving your lockdown. As you can see on the right, with a low in April when motor vehicle usage was only roughly 30% of February and now, as restriction lift, reverting back towards more normal levels.

Beyond motor, the impact on household was less pronounced, and we took early and proactive measures in our travel and loans business and stopped writing new business for this product, so we could focus attentively and entirely on our existing customers. Staying true to Admiral approach and values, we have strived to look after all our stakeholders. The biggest highlight was the decision to pay back GBP110 million to our motor customers through the Admiral Stay at Home refund, the first and only rebate of its kind in the U.K. Customer were using our product less and simply, it seems fair to refund them. But we also put in place many other initiatives to support our customer. For example, in the U.K., we have weighed the access for healthcare professionals. In France, we gave them free breakdown cover, and in Italy, we provided the free COVID protection product.

We've been keen to give back to our community as well. In the U.K., we launched the Admiral support fund to support charities across South Wales as well as contributed towards industry-wide charitable funds. Example of initiatives that we have supported include buying a tablet device for a nursery home to help residents to stay connected and the Admiral Stay at Home half marathon, that saw Admiral staff, including majority of presenters today, together running the equivalent distance from Cardiff to the North Pole.

Staff well-being has been paramount from day zero. We protected immediately our vulnerable colleagues and ensured job safety to all our staff without any government support. We implemented several initiatives to support our staff in the transition to home working. We have offered flexible working options and increased engagement. More than 95% of our staff felt well supported by the business in this period. And last but not least, we continued to deliver good performances for our shareholders and we're going to pay a full half-year dividend as well as the withheld full-year '19 special dividend, as Geraint will explain soon.

So what does the future hold? The outlook for the future is uncertain. We are entering what is likely to be the worst economic crisis of the last century. Some changes to consumer behaviors are here to stay; others, we don't know. It is unclear, for example, how mobility and car usage will evolve, as Cristina will explain better later. Also, we may see a second wave in the next month. Fortunately, our core business proved to be resilient.

I would like to end by highlighting that opportunities always present themselves during times of crisis, and our intention is to ensure that we realize these opportunities. First, we have laid the foundation for strong operational resilience, and we want to build on this for further improvements to our technology and digital capabilities to enhance the user experience. Second, the move to remote working give us additional access to new talents, and the chance to strengthen, at the same time, productivity and staff satisfaction by offering more flexible working options.

And finally, the increased propensity to online shopping should benefit us with an increase in online distribution within our international operations and within our product lines such as household and loans in the U.K. where price comparison are not the dominant channel yet. I'm confident Admiral will come out from this crisis stronger than ever.

To conclude, we have performed well, we have proven to be resilient and our people have stepped up to the mark and delivered on Admiral core values.

Thank you. Geraint will now share with you the group financial results.

Geraint Jones {BIO 19738535 <GO>}

Thanks, Milena. Hello, everyone. As we've been hearing first half of 2020 has been a challenging period, and I'm proud of the way the group has responded, looking out for our staff, doing the right things by customers, delivering a very solid set of results, as we'll hear about today, not least supporting good causes in our communities. And you can see some pictures from the Admiral Stay at Home half marathon that Milena mentioned on a slide here.

I'm going to mention some of the main features of the results looking at top line, profit and closing on capital and dividend. First up is our usual highlights slide and it sets out a generally very positive picture of the first half. Top line has been quite significantly impacted by COVID. The customer numbers continue to move on nicely and all our insurance businesses are bigger now than they were at the start of the year.

Further material improvements in back year loss ratios in the U.K. led to profit and earnings per share moving up strongly by around 30% each. Those will see the percentage changes somewhat flattened by the non-repeat of some negative items last year. We're declaring a dividend of GBP70.5 pence for the first half, 12% up on 2019. And as Milena mentioned, based on the group's strong financial position, we're also confirming payment of the special dividend of GBP20.7p that we deferred back in April. And we closed the period with a reasonably stable and strong solvency ratio.

Moving to the next slide to look at top line progression, and it's good to set out a fair amount of green on this slide despite the negative impacts of COVID. Cristina will cover the detail on the U.K., but despite a little bit of a roller coaster throughout the first half and being around 1% down at one point, we ended the period with more customers than 6 and 12 months ago.

Turnover was down, impacted by the lower volumes in early lockdown, discounts and, of course, significantly the premium rebate, add back the rebates and turnover was flat. Household grew nicely again, nearly 10% in turnover, 16% in customers. And our international businesses continued their progress, 1.5 million customers now outside the U.K. and turnover increasing.

Comparison businesses were significantly impacted in the early part of the second quarter, although the latter part of H1 was much stronger. The turnover for the period was up nearly 10% half-year-on-half-year, a very positive result.

And finally, net loans balances although up nearly 10% versus 30th of June last year, they're in line with the 2019 year-end position having risen in January and February but then reducing after we paused new business in March.

To the next slide. Let's take a look at what's driving the significant increase in the profit. The table shows the year-on-year movements for each of the main parts of our business. Starting with the UK Insurance, where profit was up nearly GBP60 million to GBP314 million. I remind you that the first half of 2019 included teh GBP33 million negative impact from changing on to discount rate. So the underlying increase is more in the order of GBP25 million.

Household result was up around GBP1 million, which was pleasing and came despite GBP5 million worth of worst weather in 2020. And the travel insurance loss was around GBP1 million, worse at around GBP2 million. And so the increase is coming from motor and it's made up of higher underwriting profit and profit commission, although a number of offsetting factors there including the rebate and also higher investment income. We've included a waterfall in the back of the pack which sets out an analysis of H1-to-H1 profit.

Moving down, the international results improved quite significantly by around GBP9 million from a loss of GBP3 million to profit of GBP6 million. We saw a notably higher profit in Europe and a smaller loss in the U.S. with improvements in both back and current year loss ratios and also growth leading to higher other revenue.

The Comparison segment was resilient and the combined result was up strongly despite the early impact of COVID, with Confused profit up over 50% in the first half. Admiral Loans as expected has reported the worst loss for H1 at around GBP9 million as we set up what we believe to be prudent provisions for expected credit losses in the second half and beyond. Detail on the other items is in the appendix.

And finally to address what impact COVID has had on the profit. Tough to put a precise number on that and there are numerous items that offset the significant claims benefit from lockdown such as the rebate, Admiral Loans loss, charitable support and lower other revenue to name a few. And we estimate that the impact on H1 has been positive but not materially so.

One of the main drivers of profit is U.K. loss ratio movements and reserve releases, and so we'll go there next. To the next slide, and the first chart on the left shows a number of things. Teh solid line is the usual current projection of the accident year loss ratio along with changes in the last six months and since they were first projected. As you know, these numbers are prudent and especially so for the more recent years. U.S pre-2015 didn't change much at all in the first half as expected.

Despite an unusual 2020 accident year, which we don't show a projection of at this point, movements on the back years were actually quite normal and mainly reflect releases on big claims as settlement activity continue to be at more normal levels after the slowdown a year or two back. And the chart on the right shows the contribution to profit from reserve releases. And as you can see, it's been another period with above normal releases and a high contribution to profit from back years. Although the current period percentage is impacted by the lower premiums in the first half notably the rebate. And if the percentages adjusted for the rebate, it would be in line with 2019.

We've maintained the level of prudence in the book reserves at the end of June in light of the uncertainty in the reserves after Q2. And whilst not shown on the chart, similarly in our International Insurance, we saw a period of good back year loss ratio development, and we remain very prudently reserved.

To the next slide and turning now to look at the capital position and dividend. And firstly, on the left hand side, the solvency position. As you can see, we're reporting a healthy and pretty consistent position with the comparative periods with the solvency ratio of 186%. Movements in the ratio from the end of 2019 as set out in the appendix and are largely as expected for the period other than hit from wider credit spreads, which was around 6 points at 30th of June.

Internal model progress was in line with the plan despite remote working, and we made our submission to enter the PRA's pre-application process. We still expect to make our formal application for approval next year. On the right hand side, that shows the dividend. We're declaring an interim of GBP070.5p per share, which is 12% higher than the 2019 payment and is a payout ratio of 85% of the first half profit. And we're confirming that due to the continued strong financial position and reduced level of uncertainty now compared to back in early April, we will pay the GBP20.7p special dividend that we deferred alongside the 2020 interim in October.

Onto the next slide and to leave you with the key messages from my section. Top line progress was generally decent, and although negatively impacted by COVID, more recent trends have been much more positive. Profit was up strongly with generally very good results from around the group, and we maintained a strong solvency position after paying the interim 2020 dividend as well as the deferred special dividend.

I'll hand you over now to Cristina to talk about the U.K.

Cristina Nestares {BIO 18674745 <GO>}

Good morning. Thanks, Geraint. As you have said, this period has been a roller coaster for the UK Insurance business. I'm proud to say that despite all this, we're in a stronger position than we were a few months ago and also that despite COVID, the highlight of our results have been the same than in previous years, which is the strength of our reserve releases, a testimony of our underwriting capability.

Now, let's start talking about the top line in motor insurance. First, a modest vehicle growth, it has been impacted our growth by the reduction in quotes and sales during the lockdown and it has been partially helped by the fact that we have had very strong retention. Also turnover was down by 8% due to the premium refund and additional income was also down. And this was mostly down to the fact that we collected less fees and also that we had less income coming from our noncore claims, just because we had less of those. So the combination of a reduction in income and an increase in expenses due to COVID has meant that our expense ratio has gone up by 1 point versus last year, but we expect this to be just a one-off.

Moving on into claims, it's clear that the biggest impact of COVID in our business has been the strong reaction in frequency. You have a graph that shows car usage in the market, frequency was down as much as 75% at the beginning of lockdown. And it's been going up week-on-week. Today, it's around minus 30%. COVID has also put some pressure on our repair process. And as we had less capacity in our garages which meant more written off and also longer duration of car hire.

So we have seen higher inflation during this period, but we expect it to come down to more normal levels. Frequency is the big uncertainty in the future. There are many factors that are going to push frequency up like, for example, less usage of public transport, but we're also going to see reductions in frequency due to recession and also maybe due to further COVID restrictions. So very hard to tell what is going to happen to frequency. My take is that we're not going to go back to normal levels at least until the end of the year.

So let's take a look at prices. For the market, during the second quarter, we have seen a reduction in prices, the ABI indicates about a 3% and Confused which only looks at new business prices is talking about a 5% decrease. Now it's important to note that this is the average for the market, but actually we have seen very different behavior by different players.

In the case of Admiral, and as we told you at the full-year results, we will increased prices in the first quarter of the year to take into account the inflation we were seeing and will reduce prices in the second quarter given the strong reduction in frequency. Taking everything into account, we have decreased prices both for new business and renewals by about low-single digits.

We haven't shown this time the time stock graph, and that is because there was a lot of volatility. I think the highlight to mention is that we are today more competitive than we were at the beginning of the period. And now the future, again, is very hard to predict, lots of pressure on claim severity, lots of uncertainty as I've mentioned, on frequency, but also, we don't know when and how big it's going to be, the impact and the outcome of the FCA pricing as time goes. I think that we're going to see price increases if frequency comes back to normal levels, but that is hard to tell. All I can say is that so far since July, we have seen relatively flat prices in the market.

Moving on to our household book, it's been a positive period, good growth in terms of numbers, but also good growth in terms of profit. Despite bad weather at the beginning of the year, we managed to increase our profit. And the overall impact of the storms was about GBP5 million, net of Flood Re recoveries.

COVID hasn't impacted household as much as it has impacted motor, but we have seen a change in claims mix. More accidental damage claims and less theft and escape of water and this is just because people stay more at home. Maybe we will see some more of these changes in the future as people might work much more from home. And in the future for our household book, we expect a continuation of growth and hopefully, an improvement in our loss ratio.

Now, at the beginning I said that I was very proud because we're a stronger business today than we were just a few months ago. Why? Well, we have a stronger brand, we have accelerated and improved our digital capabilities and we're a better place to work than we were before. So let me explain you a bit more in detail.

First, in terms of brand, the impact of our Stay at Home refund has been very strong and very positive from our customers. It's great to see their comments but also it's great to see how this has translated into what we believe is higher conversion and higher retention. You can see in the graph an increase in the consideration of our brand during this period while the average of the market has gone down.

Secondly, we have seen an improvement in our digital capabilities. We have increased the investment that we're making and we're seeing the results, double the number of online sales and also double the transactions that we do online during the year. And additionally, we have improved our online capabilities both at renewals and claims stage.

And I also said that we were a better business for our staff, we continue to receive very strong awards during this period, but also the fact that we have allowed all our staff to remote working, will increase flexibility for the future and will help when it comes to attract talent as well as if it need to be the only option for the future. So overall, we are in a very strong position, and actually, I've never been as proud as I am now to work for Admiral.

So in summary, a very good period for the UK Insurance. The highlight is strong back year releases, also modest growth during this period, but we're starting to see recovery, and reduction in frequency and a good period for our household book. This is all for me.

Now I'm going to move on and give you Costantino, who will talk more about International Insurance results. Thank you.

Costantino Moretti {BIO 19792620 <GO>}

Thank you, Cristina, and good morning, everyone. My name is Costantino Moretti. I joined Admiral in 2007 as part of the management team that launched ConTe, our Italian operation. I became ConTe's CEO in 2016 and I was appointed as Head of International Insurance a couple of months ago. In this new role, I will count on an exceptional team of colleagues who lead our operation in

Spain, France, Italy and the U.S., and those who support our technology and governance capabilities.

To start, I'd like to highlight levels of commitment made by the International Insurance businesses to pursue sustainable growth, focusing all our efforts on scaling the business whilst preserving our loss ratio and evolving our risk selection capabilities leveraging on data and analytics.

H1 2020 has been positive for us, profitable on a combined basis and with customer numbers 10% higher than a year ago, with a turnover growth of 3% despite the COVID disruption. While it reduced the speed of growth, it has actually provided some benefit to loss ratios. COVID trends observed in the non-U.K. operations have been more or less similar to the U.K. trends described by Cristina. I'm very proud of the resilience demonstrated by our operations that have shown the capabilities to prioritize staff well-being while continuing to serve our customers with high levels of satisfaction.

Moving on to the next slide. In the European businesses, we have continued to grow our customer base, even if below expectations due to the COVID emergency. Primarily, this affected the demand for new policies. However, renewals performed very well because we focus on continuing to serve our customers, while offering lower rates due to lower frequency with fewer people driving.

Looking at the single European businesses, ConTe and Admiral Seguros have taken a more prudent approach given the highly competitive markets within which they operate. Improvements in digital conversion and in the expansion of the broker networks have continued in 2020. Both projects supported volume growth whilst turnover remained quite flat as a consequence of lower rates being offered to the customers due to COVID.

L'olivier has achieved once again very positive results with growth mainly driven by the direct channel and strong persistency. The growth is primarily coming from the continuous investments in brand awareness and conversion whilst product improvement has helped to sustain turnover.

The figures for Elephant, our U.S. operation, reflect our conservative approach to not grow in order to preserve technical results. And the lower turnover growth is affected by the launch of the six-month term policy. Taking it out it remains relatively flat.

Moving on to the next slide. On the left hand side, the European businesses combined achieved a strong EUR11.2 million profit with a positive contribution from all the operations. Three main reasons behind these results, in order of relevance: one, the past year's loss ratio has evolved very positively, another demonstration of our reserve in prudence here; two, pre-COVID claims evolution suggests we have positive trends in the current year loss ratio; three, a lower-than-expected frequency experience due to COVID disruption, despite us transferring part of this benefit through lower rates to our customers.

On the right hand side, Elephant experienced a lower loss of $4.2 million due to loss ratio improvements in H1 as well as the impact of COVID. Although this was partially offset by a customer moratorium linked to increased patients for customer with payment difficulties and also some additional operational expenses.

The loss ratio improvements are linked to the continuous strengthening of risk selection capabilities where a lot of enhancements have happened over the last year. While we see some positive early signs of improvements, we remain very cautious and we wait for further development before recognizing them.

Finally, across all the operations, we continue to focus on cost control and enhancing customer service through the digital channel, improving the expense ratio and producing value for our customers.

In conclusion, moving on the next and final slide. I'd like to highlight the three key messages for International Insurance. Growth temporarily slowed down due to COVID emergency, higher profits in Europe driven by prior-year improvements and COVID effects. Elephant continues to focus on loss ratio improvements and strengthen business fundamentals.

Thanks. And now I will pass over to Elena to talk about our price comparisons portals.

Elena Betes {BIO 19792618 <GO>}

Thanks, Costi. I'm Elena Bets. I'm leading Admiral Online Comparison Portals. We love to see ourselves as Penguins. Its business is a penguin. As you could see on the slide, penguins group it and work as a team under adverse condition. And it has been extremely relevant capability to deliver the following results.

So let's move to the next slide to the European penguins. Our Comparison businesses started 2020 strongly and remained resilient during COVID. The pandemic led to a significant drop in core volumes across operations, particularly impacting on businesses in Continental Europe Rastreator.com and LeLynx.fr, where we suffer a reduction in revenues and profitability. Confused.com performance was particularly strong.

Our increasing market share in car and home insurance drive a double-digit growth in revenue and improvements on profit by 55% compared with last year. The team navigated very well through the very tangible last few months, and we are pleased with the half year results. Even more pleased to see a strong signs of recoveries across the board in June and July, made possible by team's reactions in order to adapt and relevant contingency plans in place across Europe.

We turn to the next slide. Beyond Europe, let me highlight two operations. Our U.S. operations Compare.com, achieve a substantially reduced loss of $0.6 million despite volumes and revenue strongly impacted by COVID. This was driven by improved conversion and by strategic changes made to the business last year. We are committed to maintain our customer centric proposition, convinced that this is the way to develop in that competitive market.

On the other side of the slide, let me highlight Rastreator.mx Mexico. This is one of the ventures from Preminen, our penguin incubator. Rastreator.mx was launched in 2017 and has performed strongly since the beginning. The first six months, we saw not just growth on the revenue line but a comfortable media break-even.

So as a summary, I will say that this is pleasing results, and it demonstrated resilience on our businesses and independently of the size of them. We have seen COVID more as an opportunity right now, that is digitalizing our customers and our suppliers. Second, our purpose continued to focus on empowering more customers to make better financial decisions, which under expected crisis is even more relevant. And last but not least, our strategy under the Penguin umbrella to leverage on each other, stronger together, has proven fundamental. In a world where data points to take decision is key. The fact that we have visibility on pandemic impact in each country has allowed a scalable learning that teams has leveraged on to move quicker than local competitors.

So thanks a lot to all the penguins for your amazing efforts. And now moving to Scott who leads our financial services.

Scott Cargill {BIO 20595803 <GO>}

Thank you, Elena. Good morning, everyone. My name is Scott Cargill. And I am the CEO of Admiral Financial Services. Since the deep dive provided into loans at half year 2019, the business has continued to grow in the prime space, and we have continued the trend of tightening credit rules throughout 2019.

As you may have seen from the intro slide, January 2020 started with us writing our 100,000th loan customer. That happened on January 4, and we've set the tone for an encouraging start to the year. And as you can see in the chart, by mid-March, our balances had grown to GBP515 million. And we also experienced all time low loss outcomes during that period whilst maintaining our focus on expense control.

In addition, having developed our new pricing capability last year, we launched in early January which during quarter 1 showed signs of an increase in margin. As the COVID crisis emerge, we took early action, firstly, in the early March on pricing; and by mid-March we posted new business entirely. We implemented working from home and reallocated the significant resources to servicing and collections. We also ensured that existing funding lines were secured and extended.

Moving to the next slide. The Loans business has fared okay during the COVID crisis so far. We supported customers, resulting in 3.5% being offered reduced payments or payment holidays to which over 50% have now successfully returned to up-to-date. With the exception of the payment holiday activity, we have not yet seen an increase in defaults. The payment success rate accessory of those customers not in a payment holiday during Q2 has been in line to better than historical ratios. And the high loss is therefore predominantly driven by a prudent approach. We have an increased in provision by GBP16 million in H1, and as you can see from the chart, our coverage ratio has increased from 3.7% to 8.1% at the half year 2020. This includes increasing the provision for up-to-date from 1.3% to 4%. Overall, this results in a total provision of GBP40 million for the GBP495 million Loans balance sheet. And we've provided some extra detail on the scenario assumptions in the RNS.

There were some encouraging signs pre-COVID and we have started to cautiously writing new business again. We believe the evolution of the market post-COVID plays to Admiral strengths. However, near-term economic uncertainty does drive a more prudent outlook, and therefore, we are revising our original balance guidance down to GBP500 million to GBP600 million in 2021.

As you can see from this slide, our half year loss was minus GBP9 million. And we are allowing for a loss in the range of minus GBP12 million to minus GBP16 million for the full year.

To summarize the key messages from my section. Admiral continues to invest in its loan capabilities, and there are encouraging signs pre-COVID. We had a rapid response to COVID and there is a resulting deferred growth plan and prudent provisions have been made. We remain highly cautious about the next six months, which is the high level of economic uncertainty. And we expect the next 12 months to be a transitional period.

With that, I'll pass back to David and Milena to wrap up.

David G. Stevens {BIO 6807391 <GO>}

Thank you, Scott. So in summary, I think a very gratifying set of results. Progress across a broad range of our businesses, increased profitability and market share in International Insurance and on our Comparison platforms; clearly, though admittedly, provision at this point evidence of competence and resilience for our Loans business; and of course, above all, another great set of numbers from our core U.K. business yet again.

Milena Mondini de Focatiis {BIO 18674746 <GO>}

And David, you were instrumental in building these businesses. As you come to the end of your term as group CEO, what is the legacy you feel that you're leaving behind?

David G. Stevens {BIO 6807391 <GO>}

Melina, I don't think I'll leave a legacy. I think I'd pass on a baton. I'll pass on values and competencies that have made Admiral a great company to work for, to buy from, to invest in. Those same set of values and competencies that you deployed such effect in building the European businesses. And as you take on that baton yourself, what are you most excited about in terms of taking the business into the future?

Milena Mondini de Focatiis {BIO 18674746 <GO>}

So, first and foremost, I need to make sure Admiral culture continues. Our staff is highly motivated, engaged and also shareholder. And this is what make Admiral unique and special. And this underpins all our competitive advantages. Second, I'm excited by the opportunity to accelerate digitalization and enhance our data and advanced analytics capabilities.

And finally, I'm looking forward to continuing the journey that you started of offering more products to Admiral customers to deepen our engagement with them, and our understanding of their needs. Particularly where we're confident, we can deploy our core competencies.

Now, in order to achieve all this, our people is key, Admiral culture is key and talent is key. We've recently hired some very experienced managers in the area of technology and data from the outside. But what makes me so positive is that we have a plenty of bright passionate colleagues with great potential to make Admiral stronger and stronger in the future.

And on that note, should we open up to questions?

Questions And Answers

Operator

(Question And Answer)

A - David G. Stevens {BIO 6807391 <GO>}

Thank you, Milena. Time to open up for questions. First question, please.

Operator

The first question is from Jon Denham of Morgan Stanley. Please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thank you both for taking my questions. Firstly you said that your pricing in UK Motor is more competitive at the beginning of the period and the pricing has been flat in July. Do you think you're taking a more aggressive view on low frequency continuing than Peers? Or are you just able to make more targeted adjustments faster? I guess that's one for Cristina.

And you've recently resumed the sale of travel and lending products. And you gave a new loans guidance. But I was just wondering, if your long run growth appetite for either product has changed and, I mean, also changed the kind of loans you're looking to offer. And Milena, just the same, do you say that you're thinking about offering additional products?

A - David G. Stevens {BIO 6807391 <GO>}

Thank you, John, for the questions. Should we start with -- we'll take it in your order Cristina, do you want to do pricing before I hand over to Scott for loans and then Milena on the new products?

A - Cristina Nestares {BIO 18674745 <GO>}

Thanks. Yes. So we are at the end of the period. So in June, we were more competitive than in January. I think it's important to mention that we have been increasing prices, but it's strongly ahead of the market already in the second half of last year.

So when we started to decrease we came from a very different base. And yes, today, we are more competitive which, in a way, might imply our views of the future. As I mentioned, during the presentation, what I think we're seeing in the market is a very different response by different players. And that might also be playing into the current context.

Just to mention on Travel very quickly that we have started a few weeks ago to offer car insurance to our customers again, although there is a very small volume.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you, Cristina. Scott?

A - Geraint Jones {BIO 19738535 <GO>}

David sorry. Geraint here. We were on a bit of a lag and so we missed the second two questions. So could we get the loans and the new product questions repeated, please?

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Jon, would you mind repeating the loans question and the new product question?

Q - Jonathan Denham {BIO 19972914 <GO>}

Of course. So yes, you've recently resumed the sale of travel and loans. You gave a new loans guidance, but I was just wondering if your long run growth appetite for either product has changed and if the kind of loans that you're offering has changed. And then just I think I caught Milena saying something about offering new products in her closing comments. So just if we could get more details there. Thanks.

A - David G. Stevens {BIO 6807391 <GO>}

Scott, do you want to do Loans then?

A - Scott Cargill {BIO 20595803 <GO>}

Yes. Hi, Sure. The base point on Loans will be that for the next 12 months, we'll be very cautious. And we are looking to find stable risks, so there has been an adjustment and trying to be focused anyway, but we are going to be very cautious for the next 12 months.

And therefore, I think you could look at it like it's a delay to our growth, but potentially, it would be a gradual pick up in the next two to three years. So long-term five to 10 years, no change for the next two to three years less than what we'd have been doing otherwise.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

So on the new product, David started the ambition a few years ago for Admiral to start a journey to diversification. The main rationale there is to be able to offer more product to the customer to engage more with them, have more contact point, also getting to know them better, having more data and being able to provide them a better user experience, better journey.

And we're looking at doing that in area and market where we feel that we have relevant confidence that we can deploy. Loans and household there has been the first examples. Loans is different from Insurance, but we feel there are some synergies and we can deploy our ability for example to select risk better et cetera.

We've also done other venture Veygo, for example, in UK that provide nonstandard insurance, short-term cover; or Umbrella that is an insurtech taken in household in France. And we are continuing to explore new ideas along those line and in those principles, and we'll continue to do so in the future.

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay. Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

The next question?

Operator

The next question is from Andrew Crean from Autonomous Research. Please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. And David, I think this -- is this your last set of results?

A - David G. Stevens {BIO 6807391 <GO>}

Good morning, Andrew. I gave my notice in March when we did the full-year results presentation. And it was a -- it's a 12-month notice, and that's where we are. Obviously, there's a process to transition from myself to Milena and more and more of the business reports to her. So even if de jure, I'm CEO for a while, yet de facto, Milena is increasingly the Group CEO.

Q - Andrew Crean {BIO 16513202 <GO>}

Will this be your last investor call?

A - David G. Stevens {BIO 6807391 <GO>}

I think it depends a bit on the timing of the next one.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Well I'll save it until next spring. So a couple of questions then, if I might. Firstly, I know on the European insurance businesses that you've been delaying profit by building reserve. And I wonder with the big release from reserves coming through whether that process is over and now we should look for a much more rapid acceleration in the profitability of the European insurance businesses. So that's the first question.

Second question is large BI. I mean when the frequency fell in March, April, May, from what I understood the other thing which was going on, there is not only with a fewer cars being driven, but there were fewer people in each car. Have you seen that as an important impact there has been a rapid drop in the large BI claims?

A - David G. Stevens {BIO 6807391 <GO>}

Scott, did you want to do into European before Cristina picks up large BI?

A - Scott Cargill {BIO 20595803 <GO>}

Yes, David. Good morning, everyone. On the European businesses in terms of reserving we are adopting the same conservative approach of the group and we are planning to continue in this way. While I would say that the underlying trends of the European businesses are consistent and are strong so we are observing year-on-year improvements in all their fundamental KPIs like loss ratio and expense ratio. And therefore, we are confident that we are on track to reach our previously communicated estimate of the range GBP30 million to GBP60 million written will account profit by 2022.

A - Cristina Nestares {BIO 18674745 <GO>}

Andrew, good morning. On the large BIs in the UK so we have seen a strong decrease similar to what we have seen in the overall frequency. But there have been two key changes. First, as you said, fewer people in the car. And secondly, during the lockdown period a different type of BIs, so less light riding, for example, and more injuries involving people driving a motorcycle or a bicycle. Having said this, it's very few numbers we're talking about. This is something that we have seen just for a few weeks.

Operator

The next question is from James Pearse with RBC Capital Markets. Please go ahead.

Q - James Pierce {BIO 15000444 <GO>}

Good morning, everyone. I hope you're well. The First question is just on reserve releases. So I think in the past you've suggested that you'd expect me to trend down in the long-term towards 15%. But again obviously they've been really strong this year. So just want to check if that's still the case. And then just expanding on that has there been any change in the level of prudence that has been booked into your initial loss ratios on the more recent years? Or has there been any change in the rate at which you release that conservatism?

And then the second question is just can you give us a sense of how you think the 2020 ultimate loss ratio has developed excluding the claims frequency benefit from COVID-19 in the UK. And I appreciate there is a lot of moving parts there, but I think it would just be useful to get a sense of which way you think the underlying loss ratio is heading compared to 2019. Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

Geraint, will you take the reserve releases question and, Cristina, the 2020 prospect?

A - Geraint Jones {BIO 19738535 <GO>}

Yes, no problem. On reserve releases in the U.K., we talked last time about the average in the last five years being more in the range of 20%, 21%, albeit you're quite right the past couple of periods, we've seen high 20s. If you back up the impact of the rebate, we're pretty consistent in the first half of this year with that, the high 20s range, and expected to sort of stay there in the very, very short-term but probably trend down after that back towards low 20s, 20. I think 15% is probably a little bit out to take there. But of course, you should caveat that with all depends on what happens with claims development. Of course, if it goes as expected, we'd expect continued strong reserve releases.

A - David G. Stevens {BIO 6807391 <GO>}

And level of prudence, Geraint?

A - Geraint Jones {BIO 19738535 <GO>}

There's no change in the overall level of prudence. We measure it and monitor it really across the whole reserve not individual use. We're trying to have a logical pattern obviously with typically more reserves and more prudence on the more recent years. There is more conservatism in some of the more recent years, and it appears in the back of the pack, because those tend to be prudent projections of the ultimate loss ratios as you know. So no real change, I would say.

A - David G. Stevens {BIO 6807391 <GO>}

And Cristina for 2020?

A - Cristina Nestares {BIO 18674745 <GO>}

From the loss ratio for 2020, it's very early to make any comments. But I will highlight a couple of things that we have seen. First, that we put price increases during 2019, and therefore, the starting point of 2020 at the beginning of the year is different than the starting point of '19 in terms of level of prices. The second one is that we have seen an increase of accidental damage inflation during lockdown which has taken higher than normal levels, but we expect this trend to reverse back to normal levels.

Operator

The next question is from Freya Kong with Bank of America. Please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi. Good morning. Two questions from me, please. Firstly, shopping activity in May, June appears to have more than offset the slowdown you guys saw in March and April. How are activities trending -- how are activity levels trending now? And when do you expect to see some normalization?

And secondly, you've now grown UK home customers to over 1 million, up 6% year-to-date, while competitors continue to shed customers. Are these new customers coming to you via PCW or are these existing customers taking up your multi-cover offering? Thanks .

A - David G. Stevens {BIO 6807391 <GO>}

I think the price comparison platform businesses have the best insights into shopping behavior. So maybe Elena would you take the first one about shopping and, Cristina, the household one?

A - Elena Betes {BIO 19792618 <GO>}

Sure. So all around the Europe, we have seen like big impact on activity until May, I'd say. However, June, that was an extraordinary month for everybody. Most kind of recovered from all the drop. July, August is trending as normal from our perspective.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you, Elena. Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, David. So the growth in household comes from both channels multi and price comparison. With price comparison traditionally taking the past share of the growth.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you. Next question?

Operator

The next question is from James Shuck of Citigroup. Please go ahead.

Q - James Austin Shuck {BIO 3680082 <GO>}

Hi, there. Good morning, everybody. So a couple of things from me. So the 2020 booked loss ratio on the underwriting year basis that was a 70%. I think the 2019 initial booked loss ratio was 92%. Can you just help me understand that bridge between the 92% and the 70%. Would be helpful Secondly, I guess over the past, well, your entire tenure David at Admiral, you've demonstrated much better combined ratios in the industry, in a very competitive market, 20 to 30 points probably on a fully developed basis.

We're at a stage now where the market is changing potentially in terms of customer behavior, shifting quite materially, which means that the data that you have may not be quite as insightful as it was in the past. So my question really is the size of that out performance in the past, will it get tougher to do that particularly as we move through a new kind of potential paradigm shift in terms of driving behavior, who's in the cars, physical damage inflation, all of these things. Interested to get your view on that. If I can quickly squeeze in a third one as well, it's just really a clarification on Slide 18.

Because you showed the new business online sales being up 47%, don't really understand that because that implies that your previous new business online sales was actually quite a low number. Whereas I thought you were selling kind of 80% or so through price comparison sites. And if that is the scale of the increase, could you just clarify what the implications might be for ancillary sales given you wouldn't be closing via calls, close as much as you have done in the past? Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

I'm going to do them in a slightly different order Cristina, do you want to clarify the point on 18 first? And then I'll pass to Geraint to do the 2020 detailed question. And then maybe I'll pick up the -- under the combined ratio advantage and the impact of shifts in consumer behavior at the end. So Cristina first, then Geraint, then me.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, so when we talk about new business sales, we traditionally have talked about where they start. And you're right that the more -- about 90% or more the majority of our sales starts online, either price comparison or directly priced. What is different now is where they are closed. So it's a normal process where the customer sees a price comparison, and then they might call us. What we have done during COVID is to change this trend, and we have more and more customers finalizing the sales online.

The implication on ancillaries, there is a difference between sales that close in the phones and sales that close online, but we still -- a lot of our products like legal protection and breakdown are needed by the customers and they still take it online. So the gap is not that big.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you, Cristina. Geraint, on 2020?

A - Geraint Jones {BIO 19738535 <GO>}

Yes. Thanks, James. It is a good observation. I think the point there is that 2020 underwriting year, six months into its development, with the particular period we just had is an unusual underwriting year. So it's not -- there's not a lot of earned premium on it. And it's obviously gone through a second quarter which is usual from a claims perceptive. So it's difficult to comment for meaningful trends here at this point. I think let's wait until the end of the year. We'll see where we book it at that point, and we'll show it at that point, obviously, a 2020 ultimate projection as well. It's difficult to comment at this point, and it's very influenced by quarter two and a low amount of earned premium on 2020.

A - David G. Stevens {BIO 6807391 <GO>}

And James, you made the point that historically Admiral has had a very strong combined ratio advantage. And you raised a question that maybe with a major shift in consumer behavior and driving patterns, that advantage may not be sustainable. Well or maybe in some sense is challenged. But I sort of suspect the opposite might be true because if you get a discontinuity and change in behavior, as we are seeing, although I think the world will revert towards a different -- towards normal.

If you see that discontinuity, I think the winners are the people who make the quickest and most intelligent responses and who are closest to their business and to the drivers of loss ratio. And I hope and this is a hostage to fortune but I hope we are making the right responses, reading the data quickly and implementing appropriate changes. The big challenge for any car insurer at the moment is to understand, when we commit to a price for 12-months and there is so much uncertainty around frequency and, to an extent, severity when you look at the sort of second half of a policy term of 12-months or even the last three quarters of that term. Then there's a lot of judgment call,. But I think that we're probably in a better position to make those judgment calls than some of our competitors because of our culture and heritage.

Operator

The next question is from Jonny Urwin with UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Hope everyone is well. Two from me please. So firstly, can you talk a bit about the structure of the UK motor market with regard to the recent consolidation that we've seen? I mean do you think this could be helpful in kind of improving the structure of the market? And secondly, I was interested in your observations around the potential opportunities arriving -- arising from COVID-19, driven disruption I mean of those four areas that you note, which do you see most potential from? And are you backing this up with accelerated investment? Thank you

A - David G. Stevens {BIO 6807391 <GO>}

Jonny, could you sort of expand on the four areas that we noted? Was that me that noted them? Or --

Q - Jonny Urwin {BIO 17445508 <GO>}

It's on Slide 5, so a shift towards digital contact channels, acceleration of online distribution, flexible working and operational resilience.

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Fine. So Milena, do you want to take that? But first of all, maybe if Cristina would like to comment on the big picture on the markets and the changes we've seen.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. Actually, we don't expect to have significant change. I mean (inaudible) is a stronger player with a clear focus on data and digital. They've been growing a lot in the recent periods. And I would expect that the new owner will continue with this strategy. So no major changes.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Hi. So it is difficult to prioritize them because we don't know exactly what the new normal is going to look like. Just for the benefit of everybody, I mentioned an improvement in digital contact, an acceleration of online distribution, that will be particularly beneficial for the product where online is not the dominant channel yet. And this is international insurance and products outside motor in UK. And then flexible working, access to new talent and operational resilience.

I would say personally that this order is somehow reflecting what I would expect to be the order of that. And probably the shift towards stronger user experience, higher adoption of digital channel and online distribution is probably going to give an additional boost to a company that can provide good service online. They're competitive in pricing, and they're very customer centric as earlier.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

Operator

The next question is from Greig Paterson with KBW. Please go ahead.

Q - Greig Paterson

Good morning, everybody. Can you hear me?

A - David G. Stevens {BIO 6807391 <GO>}

We can Greig.

Q - Greig Paterson

Three questions. One is the net earned premiums, I thought you were going to book the rebates there. Am I correct that you rather booked it as a claims cost? And I'm just trying to understand the accounting. Second question, in terms of the first half of the year, ignoring COVID-19, I wonder if you could give us sort of an idea of what the year-on-year, just broadly, inflation rate. Was it was single-digits, high, medium, whatever?

And then if you could answer the same question including COVID. So in other words, what was the year-on-year inflation in UK motor from COVID? And then thirdly, there was pressspeculation about your disposing of your European and UK PCW. I was wondering what your thoughts are. Was there anything to that press speculation? And what is the strategy there? Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you. And maybe I'll take the last one first before handing over to Geraint on the handling of the rebates and Cristina on motor inflation before and after COVID impact. So yes, I mean ever since we launched price comparison a fair while ago, it's been an area that's attracted a lot of external interest. And that has been more the case in recent years, even than it had been historically, partly based on the increased success of our comparison businesses and particularly confused. Coming out of the lockdown also and there was a lot of private equity money out there looking for places that have been resilient to COVID.

So we do -- we have been approached. And we have a strict policy of considering approaches and trying to judge them from the point of view of what's in the shareholders' interest. My predecessor Henry used to say everything is for sale, except his wife, and that sort of applies. Having said that, they are lovely businesses, they generate a great return on capital and a solid profit flow. So there's no urgency to consider external offers.

A - Geraint Jones {BIO 19738535 <GO>}

Greg, on the accounting for the rebate this year, I suppose you've gotten to page 59 of the accounts we've done and what we've done with the accounting. It's all taken in the first half into the net earned premiums. It's not offset against claims costs. The impact is obviously, net of reinsurance is a bit lower than the GBP100 million. That's a top line figure but it's set out in the notes. Marisja, can you just talk through it?

A - Cristina Nestares {BIO 18674745 <GO>}

Greig, on year-on-year inflation for claims, if we don't take into account COVID, we have experienced normal levels of completion around mid-single-digits. When you take into account COVID there, the inflation of the repair claims of accidental damage has been higher than the normal levels. Given the infraction that we had in our repair process during lockdown. There was limited garage capacity, and that has an impact, for example, in the sense that we had more written-offs, we had more duration of car hires.

However, we think this is a clear effect of lockdowns, and we expect inflation to go back to normal levels once things go back to normal levels around especially garage capacity.

Operator

The next question is from Thomas Bateman with Berenberg Bank. Please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning, everybody. Thank you for taking my question. Just a couple of questions to being with on the international division. You flagged sort of longer-term cautiouness on -- in Italy and in the U.S. And the U.S. kind of get that. That's understandable given sort of focus on cost control there and you pulling back a little bit.

But I don't quite understand cautious business actually could you give me a little bit more context around that? And linked to that you said you chose to increase the net retention in the U.S. and what's the sort of rationale behind that, was that an internal decision or reinsurer decision?

And finally, just a second question on the loans. Can you just run through the numbers again, Scott, on those that went onto payment holiday, those that are now still on payment holiday and how that has impacted the provision? Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

Probably, I'll do the retention question first before passing to Costi on the U.S. and Italy and then back to Scott to finish on loans.

So, yes, we have regular conversations with our reinsurers as contracts come up for extension and renegotiation. And the balance of our view of the balance of outcomes in terms of what was on offer was that we shouldn't take as much reinsurance as we historically had and we stepped down from 75% cover to roughly 50% cover. So it's the outcome of a negotiation. Costi, over to you.

A - Costantino Moretti {BIO 19792620 <GO>}

Yes. Thank you. So I would say that we -- that the consciousness is part of our DNA. But having said that about Italy and ConTe we are building a strong business there that is profitable over more than five years. And all the underlying KPIs are continuing to improve year-on-year, despite to be honest a very challenging and competitive market. While, I would say, in the U.S., we remain very cautious and very committed to improve business fundamentals.

A - David G. Stevens {BIO 6807391 <GO>}

Before I hand back to Scott, let me sorry, I realize I slightly missstated. We were at 66%. We weren't 70%. We've gone down to 50%. Over to Scott.

A - Scott Cargill {BIO 20595803 <GO>}

Payment holidays, we had around 3,500 customers going to payment holidays. And at the half year, over 50% of those have returned to up to date. Looking at it now, it's about 1,000, so it's continuing to go down. And the way we account for that is that they're maintained as up-to-date because that's the way we treat them in accounts. But -- and we've held a bit 75% of them in Stage 2. So you'll see the coverage there is around 34%. It won't return immediately back to Stage 1 because we still see a lot of those customers as (continue to pay us and a clear duration) declaration in the second half.

Operator

The next question is from Dom O'Mahony with Exane BNP Paribas. Please go ahead.

Q - Dominic O'Mahony

Good morning, folks. Thank you for taking the call. Just two questions from me, if that's all right. First is just on inflation and not so much the year-on-year inflation but in terms of longer-term inflation, in particular on large injury. One of the topics that's sometimes debated in the market right now is whether monetary stimulus and similar measures might increase inflation in the short to medium-term. What's your approach to inflation on the LBI reserves? Clearly, because you retained that more than some of your peers, in the past, good management of those reserves has to be very critical. But I'm just wondering how you control that whether you, for instance, use inflation swaps to control that.

The second question, more on the business. Lots of discussion today on trends in digital distribution, which looks very encouraging in terms of the market trends. One of the things that at least I've noticed is more car companies talking about the connection of essentially the technology in the car to insurance.

I wonder if you could flesh out your approach to partnering with the car OEMs I know you have a partnership with Ford. Are you seeing that as a potential distribution channel in the future and using car technology as part of that? Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

So Geraint do you want to handle the impact of inflation on large bodily injury exposures? And then Cristina, are you all right to talk a bit about connected cars and our relationship with Ford? Over to Geraint.

A - Geraint Jones {BIO 19738535 <GO>}

I think it is fair to say that we buy a lower level of excess loss reinsurance for bodily injuries. So when we see an elevated number of large injury claims, then we would suffer. But on the contrary, when we see a reduced number of large injury claims or lower inflation, of course, we would benefit from that.

I'm not sure we're actively pricing in or doing anything different in response to potential long-term trends on inflation on large injury claims at this point. We will adjust our prices to what we see on our portfolio in terms of the numbers and the cost of claims that come in. Immaterial to say this point.

A - David G. Stevens {BIO 6807391 <GO>}

Is there anything you might say about the matching of assets and liabilities in the context of large bodily injury exposure?

A - Geraint Jones {BIO 19738535 <GO>}

Yes. Of course. From the asset side, we're well matched to the duration of the assets as well, and that's the duration of those liabilities. Hence, when interest rates move up and down, you don't see big swings in solvency ratio as a result of that at all.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you. Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. Let's start by saying that we value a lot the data that telematics or technology in the car can bring. And it's clear that we're one of the largest providers of telematics insurance in the market because of these reasons. So we are very open to getting to partnerships with OEMs or with other data providers that might give us access to the technology in the car data.

We have done a partnership with Ford and we remain open to finding new distribution channels and new partnerships as a way to get this data but also as a way to find customers in a different way.

A - David G. Stevens {BIO 6807391 <GO>}

Thank you.

A - Marisja Kocznur {BIO 20556893 <GO>}

Yes. So we've got some questions coming in from the website. The first one is from Abid Hussain. And his first question is, do you think driving will ever return to normal given flexible working is likely to continue over the long run, meaning fewer car journeys? And his second question is, can you explain how Admiral loans work? How are they funded? What is the risk to shareholders if losses arise? What is your medium-term growth outlook on loans given the recessionary environment? Thanks.

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Thank you very much. Cristina, do you want to take the first question and obviously Scott the second?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. I think it's very hard to tell if driving will ever return to normal. But I will tend to agree with the question in the sense that flexible working is going to stay and going to continue in the future. I think we're going to see for example less traffic in peak hours. We might see people moving from city centers to the outside. And that is definitely going to impact frequency or overall car usage down.

However, there are other trends like less usage of public transport and more domestic holidays, which I also think might continue in the future at least some of it. So overall lots of uncertainty. In my view, we won't go back to normal levels of driving at least for a very long time.

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Next question from the website?

A - Scott Cargill {BIO 20595803 <GO>}

On the loans one, David.

A - David G. Stevens {BIO 6807391 <GO>}

Sorry, Scott.

A - Scott Cargill {BIO 20595803 <GO>}

So on funding and there is detailed notes in Page 42. We have some internal funding which is just GBP200 million. And then we have a payout warehouse, which is around GBP400 million. And so the detailed drawdown in most of the half year, are in terms of losses in the near-term and our weighted unemployment rate and the provision is around 11.2%. So we're now towards the higher end of market percentage. And that said, we have to have some conservatism benefits and also in the notes which we -- and some what would happen if there was a to the downturn or to the severe.

And on balanced outlook. And I think it was broadly covered this yesterday, in 12 months, we will definitely be taking a view of caution, but we have big ambitions for the future. So when we see the opportunity, we will look to grow and again. Thank you.

A - Marisja Kocznur {BIO 20556893 <GO>}

Thank you. All right. Our next question is from Ming Zhu [ph] and the question is, what is your claims inflation outlook? And how is that versus your comment of being more competitive? Are you implying that you are writing a lower margin? Thanks.

A - David G. Stevens {BIO 6807391 <GO>}

Cristina, do you want to do that one?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. Admiral has a history or a trend of moving prices ahead of the market. And I think to answer this question it's important to mention what has been happening in the past couple of years. So we started putting prices up in the mid '18, which means we -- and we continued in '18, '19 and the first months of 2020. So for about 20 months we've been putting prices up which meant that at the beginning of 2020 we were less competitive than we were a couple of years ago.

In Q2, we decreased prices by low-single digits. And I would sense that up now is closer to what it was a couple of years ago.

A - Marisja Kocznur {BIO 20556893 <GO>}

Our next question is from James Hodge. And he asks, you seem still to be writing U.K. Motor policies from a German entity. How long post Brexit do you expect this to be allowed to continue? And will there be costs from bringing the writing back to the UK? Thank you.

A - Geraint Jones {BIO 19738535 <GO>}

So that relates to the Munich Re Company, Great Lakes, which is a German company with a UK branch. We very confident they've got the right commissions to carry on writing the UK business in the UK post 2020, I don't expect to see any additional cost of doing that.

A - Marisja Kocznur {BIO 20556893 <GO>}

Thanks, Geraint. Our next question comes from Romain Friedman. And the question is now that you're reaching scale and ongoing profitability in international operations when do you think you'll be able to improve overall economics on the COVID reinsurance contracts internationally to progressively move towards UK similar economics. Thanks.

A - David G. Stevens {BIO 6807391 <GO>}

Milena, do you want to have a go at that one?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Sure. As we mentioned in the past, we think that over time once we prove a track record of strong set of results. We can improve the terms of the contract that we have with our insurance internationally. Just -- so we think that's going to happen in time. Just to remind that those contracts are multi-year contracts so it's not a linear function. It's something that will come when the contract will reach their expiration date.

A - Marisja Kocznur {BIO 20556893 <GO>}

Thank you. Our next question is from Faizan Lakhani. And he asks three-fold question. One, how are your quota share negotiations developing? Do you expect any change to your reinsurance structure? Two, could you split the benefit in motor profit for claims frequency benefit from COVID-19 versus the underlying improvement? And three, you've mentioned that accidental damage inflation in H1 has increased. Could you provide further detail what that is due to you and what gives you comfort that trend will reverse? Thank you.

A - David G. Stevens {BIO 6807391 <GO>}

Well I slightly wonder if that question was asked before Cristina answered a very similar question a few questions ago. I'm wondering about asking Geraint to comment on the reinsurance contracts and leaving it there.

A - Geraint Jones {BIO 19738535 <GO>}

Happy to. Yes, the UK quota share reinsurance discussions are active and they're productive. We'd expect them to continue very shortly. And at this point not expecting any notable changes to those arrangements.

A - Marisja Kocznur {BIO 20556893 <GO>}

That's all the questions from the webcast. So no further questions from our side.

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Does that mean, Marisja, that we'll wrap it up here?

A - Marisja Kocznur {BIO 20556893 <GO>}

That's correct, David.

A - David G. Stevens {BIO 6807391 <GO>}

Okay. Thank you, everyone, for participating in today's call and question-and-answers, that we very much welcome your questions, and looking forward to a successful second half. Bye.

A - Geraint Jones {BIO 19738535 <GO>}

Bye, everyone.

A - Cristina Nestares {BIO 18674745 <GO>}

Everyone.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you. Bye.

A - Scott Cargill {BIO 20595803 <GO>}

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect. Good-bye.