Q3 2017 Sales and Revenue Call - Trading Update

Company Participants

- Anthony Jonathan Reizenstein, Chief Financial Officer & Executive Director
- Paul Robert Geddes, Chief Executive Officer & Executive Director

Other Participants

- Andrew J. Crean, Analyst
- Arjan van Veen, Analyst
- David Andrew Bracewell, Analyst
- Dhruv Gahlaut, Analyst
- Greig N. Paterson, Analyst
- Kamran Hossain, Analyst
- Thomas Seidl, Analyst
- Wajahat Rizvi, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Direct Line Q3 Trading Update. My name is Courtney and I'll be your coordinator for today's event. For the duration of the call, you will be on listen-only. However, you will have the opportunity to ask questions.

I will now hand you over to your host, Paul Geddes, to begin today's conference. Thank you.

Paul Robert Geddes {BIO 2474781 <GO>}

Thank you and good morning, everyone. Welcome to our Q3 update. As usual, I'm joined by John Reizenstein and other members of my management team. Hopefully, you've all had the chance to read through our trading update and have your questions ready. Overall, we're pleased with how we traded this quarter, having maintained the strong momentum across our own brand portfolio and another great quarter for our Direct Line brand in terms of both policy count and premium growth. We also made progress against the many initiatives that I set out at the half year. And this trading update, I think, reminds you of the value of having strong brands, propositions, and customer relationships, and this has enabled us to deliver good value for our customers and good return to shareholders.

So on to the headlines, we delivered policy growth in our own brands across Motor, Home and Commercial Direct, and Rescue, and we're really pleased with the 5.1% increase or a third of a million additional policies, and again much of this growth was driven by our Direct Line brand. We maintained strong momentum in Motor growing our own brand policies by 5.5% year-to-date at good loss ratios. In Home, we are encouraged the actions we've taken on the escape of water across pricing, claims, and underwriting have started to show a positive impact albeit it's still early days. And overall, our continued momentum means that we are on track to deliver full-year combined operating ratio around the middle of the 93% to 95% target, still assuming normal annual weather.

So, now a few words on each of our business areas starting with Motor. We continued to grow policy account and premiums particularly across own brands as a result of the great momentum in Direct Line. Motor own-brand policy account was 5.5%, ahead of the same point last year. And Q3 premiums were 10% ahead.

We saw some signs that the market prices starting to flatten in Q3 versus Q2 although they are still up strongly year-on-year. We're really pleased with how we traded, having achieved a good balance of growth at or above our target loss ratios, and this was helped by some favorable experience on claims frequency, which we're not banking as a trend.

Moving on to Home, as I've mentioned upfront, we're pleased with the actions we've taken to address escape of water claims inflation are beginning to bear fruit. These actions are taken across pricing, underwriting and claims, and have collectively had a positive impact on escape of water inflation. Against this backdrop, we traded well, growing policy count and premiums across our own brands. In Home Partners, we continue to see a reduction in policy count and premiums in line with historic trends.

And a few words on weather, it's been another fairly benign quarter, so we're below our weather event load although it's still too early to bank this as a benefit. A reminder that our overall core guidance includes a normal annual Home weather load of around £65 million.

In Rescue, it's another strong quarter for our Green Flag brand. At the end of Q3, in-force policies were 10% ahead of last year. Linked (03:44) Rescue also achieved double-digit growth helped by higher Motor volumes and our Churchill promotion.

And in our Rescue Partners, I'm delighted to announce that we've just agreed to renew our arrangement with Royal Bank of Scotland to continue to supply Rescue services to its bank customers for another five years.

Finally, Commercial, which grew policy count and premiums in Q3, policy count was 5.8% ahead of the same period last year, largely driven by the continued growth in Direct Line for Business, which was 8% ahead of prior year. Commercial premiums overall grew a little in Q3, as the great performance in Direct Line for Business was almost fully offset by lower premiums in NIG, where we continued to focus on returns.

A few words now on costs and our ongoing investment across the business, as well as some perspective on the potential impairment we flagged in the statement. As you know, we're undertaking an extensive transformation agenda, investing in multiple initiatives and systems aimed at improving our customer experience, supporting our growth and improving the efficiency of our business.

The investment in systems span policy, pricing, payments and other related data and digital systems across the business. And as we said before, we expect to incur capital expenditure on average of around £80 million to £100 million per year, up to and including 2019.

For example, as you saw at the half year, Direct Line for Business successfully launched a leading new platform for small business customers, which is progressing well and we're planning to rollout our next update around the end of the year, which will include Bed and Breakfast.

Overall, we made good progress on initiatives to improve our efficiency and we're on track to deliver a better business as usual expense ratio lower than last year at 24%. However, as can happen with this level of change, not everything has gone as we'd have liked. And we recently decided to rework some elements so as to give us the performance levels that we demand.

As our impairment review is underway, this could lead to an impairment charge at the year-end somewhat higher than last year's level. Impairments, remember, are non-cash items and so have no impact from a capital position, but would impact the headline expense ratio. And finally, on the outlook where a strong performance in Motor gives us confidence that even with our potential impairment, we can deliver around the middle of the combined operating ratio target of between 93% and 95%, still assuming the full annual weather load.

We've made great progress on costs and are on track to reduce our business as usual expense and commission ratios. For investments, we increased our guidance from 2.4% to an income yield of 2.5% in 2017. Please note, we continue to expect assets under management to decline modestly. So, in summary, we are pleased with how we traded this quarter. We maintained a strong momentum across our own brand portfolio and particularly Direct Line.

And with that, operator, we'll go to questions.

Q&A

Operator

Okay. Okay. So, our first question comes in from the line of Thomas Seidl calling from Bernstein. Please go ahead.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Good morning, Thomas.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good morning, Paul. Three questions, if I may. On Home, it seems that most of your actions had impacted the claims side, while the average premium seems to be down year-on-year. And so, I wonder if you could give some color why it is so difficult not only for Direct Line, but for the whole market to re-price for the obviously higher claims costs. Is this related to the increase in price comparison penetration or what is the key driver here? That's the first question.

Second question is on those impairment charges. To what extent does this imply that you expect lower profitability going forward or are those impairment charges more related to technical stuff not coming through as you planned. I would like to have some color, if possible, on that one. And finally, on reinsurance, I wonder if you had by now more clarity how reinsurance costs will change on Motor, in particular for next year. Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Thanks, Thomas. John is going take all three of those.

A - Anthony Jonathan Reizenstein

Yeah. Thomas, morning. So, we'll start with Home. And as you say, yeah, we are encouraged by the results we're getting from the actions we've taken across pricing. But it wasn't just pricing, of course. It was claims and underwriting. And in combination, those seems to be working better for us.

But you're right. The market, the Home market remains highly competitive. That is partly due to distribution channels. PCWs are still growing. Although I would say that we are pleased and NatWest and RBS are pleased with the progress they're making with us in their channel. So, I don't think the bank channel is at all in internal decline. It's battling back. But nevertheless, it's still true that PCWs are growing. And we are trading quite adequately on PCW. So, we're not too dissatisfied with that.

Obviously, in our case, average premium can be affected by risk mix, and we've seen that before. We'll obviously update that. We don't do that every quarter. We'll update that at the year-end. In terms of pricing versus claims inflation, in our case, having taken the actions, obviously some pricing is going through. Not quite enough. We always said that we saw positive (09:33) competitive conditions in this market maintaining very, very, very healthy loss ratio, which we've had for many years would be tough. But overall, I think things are coming through more or less on track for us, and we're back on track and we're happy with where we are.

On impairment, no, we don't think this will have an effect on our profits going forward. Obviously, we're not happy that we've invested in something that's not quite good enough and we have to rework. But we can do that rework within the envelop of spend that we've been talking about for a while. I think £200 million (10:10) for the next couple of years through the end of 2019 and we're not changing any of our targets for the future so the answer is not.

And finally on Reinsurance, yeah, it's going to be interesting or it's (10:23) already interesting discussions this year with reinsurers. Obviously, for them and for us, we have to look at how Ogden settlements will settle not today, but maybe in three or four year's time if there's an accident in the next 12 months.

So, that is going to be an interesting discussion. We go into this discussion with flexibility and a kind of good balance sheet, which means we probably have choices about how much reinsurance to get, which brands we want to retain, which brands we want to reinsure, or there's some type of structures that we can do that maybe work for the reinsurers as well as us, so we're not too pessimistic. But, yes, clearly, they would like some (11:00).

Q - Thomas Seidl {BIO 17755912 <GO>}

So, for some players we have seen 30% increase in reinsurance first half year (11:05) is this a good ballpark number or is it coming down because of the reasons – revision of the Ogden revision if you want?

A - Paul Robert Geddes {BIO 2474781 <GO>}

I think we're in a negotiation. You wouldn't expect us to show our hands, but I think we've got a good hand to play. We would expect prices to go up, right? But we're debating the level, so there's still several weeks to run on the process.

A - Anthony Jonathan Reizenstein

And there could be some subtleties in the arrangements. So, they're not quite as simple as they were in previous years.

Q - Thomas Seidl {BIO 17755912 <GO>}

True. Yeah. All right...

A - Anthony Jonathan Reizenstein

...uncertainty about the government and where that's going to be.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes. Of course. Thanks a lot.

A - Anthony Jonathan Reizenstein

Okay.

Operator

The next question comes in from the line of Kamran Hossain calling from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning. Just coming back to, I guess, the impairment and the investment. Can you just talk about what potential of the investment might be over the next few years? How we should kind of think about measuring success on that investment? I mean, is that a lower expense ratio? So just any color on that would be really helpful? Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I mean, I think, listen, let me say a few things. I think the first thing is, just to remind you that we've been improving our systems kind of throughout this period and continue to do so and launch things. This is not a one-hit wonder. We continue to improve things. I think the fact our current systems we've improved to the extent we've grown 0.75 million policies at good loss ratios over the last year. So we're in a pretty good position.

And really, therefore, the investment is to get us into a future position to stay ahead of consumer trends, to continue to grow our businesses, to continue to grow our pricing sophistication, continue to give customers the experience they want and to deliver more efficiency and you know that we've got a longer-term target to reduce our cost ratios.

So, kind of that – we got a program against that, we got those targets baked in to the new targets, which we updated at the half year. And we're confident we're going to deliver that. I mean, just to put in context what this impairment is about, we have chosen, as we've done over the last eight years, to invest in really proven products, working with proven suppliers and we're well advanced on the build of those products.

What happened this time is that what proved a bit harder, and we're reworking how we're doing it, is the connectivity between those systems and the data flows between those new systems and legacy. And that's where we weren't getting the levels of performance that we were looking for. So we decided to rework. We're happy with the way through now. We'll give you more of an update at year-end. So we are – it's a small part of our overall change agenda. We've got a good track record. And as I said, this will set us up for the years and maybe in decades ahead, which is why we're taking our time to get it absolutely right.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks so much for the color.

Operator

The next question comes in from the line of Arjan calling from UBS. Please go ahead.

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

Thanks. It's Arjan van Veen. A couple of questions if I may. Firstly, RSA, in the 3Q call you mentioned that Home pricing that there seems signs of that starting to finally now move. So, could you comment a bit about sort of price trends in the last few quarters?

Secondly, on the frequency. The fact you're calling it out, I assume it's more than one quarter of improving frequency. So, can you give a bit more color on that. And at the same time, can you also – has there also been any sort of more recent changes in bodily injury. One of your peers mentioned to us that small (14:45) bodily injury for example has been more favorable over the last few quarters. And then finally, can you just give us an update in terms of when the Churchill reboot is happening? I thought that was in the fourth quarter and is that still on track?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. The last one, next year, but we're excited about what we're working on in terms of the Churchill reboot. Listen, on Motor, let me just tell you – give you a little bit more flavor on Motor. So, we're pleased with how we're trading given the pricing action we've taken. We've priced ahead of trended claims inflation. And 2017 is going to turn out, we think, better than that trended view of claims inflation for two reasons. One is obviously, we've got favorable post-Ogden reinsurance arrangements. So, we've got this – 2017 is very favorable for us on reinsurance.

Second is, we are seeing general 2017 is looking like across the year a good year on frequency. We're not trending that yet We're taking out as a one-off piece of good news. We could trend it because you could say, it's linked to the Jack's reform MedCo (15:51) and autonomous emergency breaking, but we think it's too early to trend that. So, we'll not. But that's been generally favorable and it has acted as piece of good news.

We're still seeing the same accidental damage trends, which are inflationary, but I wouldn't demure from saying that we're seeing encouraging trends for (16:13) bodily injury as well. So, 2017 is going to turn out, we think, a good year on Motor. We're not taking all of that good news forward in terms of our plans.

A - Anthony Jonathan Reizenstein

Our Home pricing, yeah, I think we said last time and it's true this time. Home pricing is up a bit, but it's modest. And I suspect it's not quite enough if only for the market trend inflation. But it's certainly better than it was for many, many quarters period prior to that.

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

Thank you.

Operator

The next question comes in from the line of Dhruv Gahlaut calling from HSBC. Please go ahead.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning. I have three questions. Firstly, on the UK claim inflation just following from the last question. Could you quantify what that number is i.e. what's the net of the accidental damage and frequency? I think at half year, you still said it was running at the top-end of the 3% to 5% long-term range.

Secondly, on the Ogden, as in is there a time line? Is anything happening? As in I haven't really heard much on that. And lastly, in terms of impairments, I might have missed if you made any opening remarks, but what is the difference in terms of impairment this year versus what happened last year? What is driving that impairment? Thanks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. So, Dhruv, listen, we're not giving you a number at this stage on claims inflation. What we're saying is that it's certainly going to be a year when it's – and if something remarkable happens, it's going to be better than our long-term trend, but we're sticking our long-term trend in our assumptions still for the outgoing years.

So, we're treating Ogden and frequency as kind of one-offs. Ogden, it is clear that the will of the government is to implement this change, the ability of the government to execute that change whether it's together with other measures like whiplash on its own (18:06). So, it's still to be determined. We're clearly running out of weeks for this to happen in 2017, so I think that's very unlikely now, but we think, hopefully, this will get moving in 2018.

I think the uncertainty about the Ogden timing and whiplash is creating a kind of a market environment where there's a bit more variation of pricing in Q3 from the market competitors, which is not an irrational thing, because people are trying to work out business. Right now, when claims settle, what will be the environment there for Ogden and for whiplash? So, it's quite hard to call it. But, obviously, we have to make some assumptions. So, it looks like people are making slightly different assumptions, but all against the backdrop of (18:46) we think a pretty rational market. Do you want to talk about impairment?

A - Anthony Jonathan Reizenstein

Yeah. So, on the impairment, obviously, the context, Dhruv of it is that extensive set of changes we're making across – a lot of systems across all our products and brands and channels. Last year, we found some components which weren't going to add sufficient value and we potentially wouldn't complete. So we wrote those off.

Slightly different this year, obviously, we are further advanced. And what we've seen is that some data and connectivity between the new systems with each other and also back into our legacy systems doesn't really meet our expectations on things like speed, agility, cost of ownership and so on and generally (19:35) on performance. So, that's a question of reworking. So, it's not that we don't need those things. We do need those things, but we need to work them so that they are as good as we expect them to be.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

And can I just do a follow-up on this?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Sure.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

When were these – assuming these are new investments, right, the connectivity bids (19:57) i.e., this was something you must have tried in the last couple of years. Is that right or...

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Has it been there for ages and now you're just going through some of these things?

A - Paul Robert Geddes {BIO 2474781 <GO>}

No. I mean, as you built things, you're trying to (20:07) you got to connect the link with the...

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Yeah.

A - Paul Robert Geddes {BIO 2474781 <GO>}

... (20:10) and with the legacy systems. And, yes, the last couple of years, it's fine and sensible (20:16). Yeah.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

All right. Thank you.

Operator

The next question comes in from the line of Andrew Crean calling from Autonomous. Please go ahead.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Good morning, Andrew.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning. Good morning. Could I ask on two things? Firstly, on the politics. Do you expect Ogden changes to be linked into the same bill as the whiplash changes, which I think were part of the Queen's Speech?

And, secondly, on large bodily injury claims settling this year, where are they settling? Are they settling at minus 0.75% or they're settling at around 0% to 1%? And how would you deal with that in the full year? Will you call out to us, where you're getting a reverse in some of your Ogden reserving because it's settling at a better rate or will it just go through the mix?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. Thanks, Andrew. Listen, we don't know whether they're going to be separate or together. We would rather they were separate, because we think there is kind of physical consensus on Ogden and we want to get on with that. It's obviously up to politicians (21:28) they want to do.

In terms of where we're settling, currently, it's kind of still early days. We got about 20 claims, where the rate is a material part of the settlement and therefore we got a sense of it and we're probably not out of line, but I think what RSA said which is, generally, claim seemed to settling around the new range of 0% to 1%, rather than where Ogden is currently set. But, I have to say, it's still relatively small numbers.

A - Anthony Jonathan Reizenstein

And we'll take the way (22:00) you're suggesting that just to separate them out and think about it.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. Great. Thanks.

Operator

The next question comes in from the line of David Bracewell, calling from Redburn. Please go ahead.

Q - David Andrew Bracewell {BIO 16394801 <GO>}

Good morning, guys. I have a couple of questions. One, just on the Nationwide deal, which is going to be expiring anytime soon. I know you talked about the premium volumes for example. Could you give us anymore clarity on the kind of effect it will have on profitability and also kind of competitiveness going forward, because of course that contribution to your fixed expenses there, so I'm just wondering if that will disrupt your competitiveness in the UK Home market?

And kind of a follow-up on Andrew's question actually, when you talk about the Ogden claims settling at a slightly better discount rates, at the half year, a lot of your peers have talked about putting through enough rate increase for actually the new Ogden discount rate of minus 0.75%, I mean, is that do you think the claims which are settling now are somewhere in the region of 0% to 1%, is that affecting the kind of pricing, is that one of the reasons why we're seeing, as you called it, a bit of a slowdown in the rates of increase for motor insurance pricing because actually claims are settling slightly better? Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I think it's quite hard to take the sugar out the tea of all the input costs. But certainly, we've got a situation where you've got a good frequency here, you've got a favorable reinsurance arrangement this year, because of course we're not largely on the reinsurance bill in terms of the Ogden costs. And then, you got a potential change to Ogden and you've got potential change to whiplash. So, all of those are inputs. And we think, therefore, the level of rate the market got away in the first half is definitely sufficient for all of that. And, therefore, unsurprising to see how the market is priced in Q3, albeit with a bit more variation. So, yeah, you're right. There are a number of kind of positive factors which you should judge the pricing in the market again, which is why we're saying the market has been pretty rationale.

Nationwide, a few things to say on it. First of all, this is not new news for us. It's been a bit later than we thought. But our plans have been counting on the loss of Nationwide for a while. And, therefore, all our longer-term targets, reduction expense ratio, GWP targets have all been set in the context of Nationwide going. The actions we're taking today have been to make sure that we can get the variable cost out the business which is – which we're well advanced in doing. And then, the contribution to fixed cost, which is really what it is making because in a partnership, some of the profit goes to the partner. The contribution of the fixed cost is part of our overall challenge of getting our fixed costs down and getting that ratio down. And we have a number of initiatives to meet that ambition, including the loss of Nationwide.

A few things to say on partnerships generally though is we have this fantastic partnership with RBS, and that's working really well. All the investment we've put in, and work with this joint venture improved the digital journey, to have really fresh propositions seems to be really working with them. We renewed our rescue partnership deal with RBS which is for five years, which is really helpful in terms of the volumes. And partnerships can provide profit, they can provide volumes, and they could also provide strategic advantage. And that's why we're very active in the motor manufacturer marketplace where we want to do partnerships with motor manufacturers because we think that's strategically important.

So, partnerships are very much a part of our future and a part of our plans, and we're doing pretty well in them actually. As I've said before, I think the loss of Nationwide is a reflection of historic factors rather than kind of where we're at today in terms of our capability. (25:49)

Q - David Andrew Bracewell {BIO 16394801 <GO>}

Thanks.

Operator

The next question comes in from the line of Greig Paterson calling from KBW. Please go ahead.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, gentlemen. How are you?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Hey, Greig.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good. I wonder, you spoke about rates and mix in the Home and you look reluctant to give some explicit numbers. I wonder if you could talk us around what sort of rate and mix has been achieved in Motor? That's question one.

The second one is I was wondering to what degree this impairment – and whatever you learned from that, to what extent it would delay the implementation date of your UK – your new UK Motor IT platform? And then the third question is I believe in the process – somewhere during this process of impairment, you've decided to no longer use an internal development team and have gone towards an external vendor. I wonder if you could tell me who that external – I believe you announced that. I didn't pick it up, though. Could you tell me who that external vendor is and why you decided to go external versus internal?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. So, let's start, in terms of – we've decided to be less exhaustive in our disclosure on our pricing movements in the older quarters, Greig, just because we were over-disclosing and are slightly competitive in it. What I can say is we are certainly at the right side of the line in terms of us pricing, in the long term, trendy claims inflation. And in terms of mix, not particularly new trends, but improving mix in terms of (27:31). So we'll give you – we'll revert to more disclosure on that at the full year.

Q - Greig N. Paterson {BIO 6587493 <GO>}

That means it's still down, right? Still negative impact?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Yes. Absolutely. So the AVP doesn't do justice to the pricing we've achieved. So we'll achieve more pricing as implied by the – similar to H1. But we're not going to give explicit disclosure of the old quarters. So that's positive, Greig. In terms of the program, a few things. Yeah, listen, we continue to work with a number of vendors, and we don't choose to disclose who those are and change them time to time. But we continue to work with people that are – have got good experience of delivering these programs and these packages globally.

And the good news is they're all proven products, right, that work together with each other in other insurers around the world, and we are tapping into the right experience to make sure that we learn from that. So while this is not kind of greenfield, this is not us (28:35) completely new systems out of the blue. This is – we work with people who know what they're doing.

You, I think, referred to this as a kind of Motor IP program. The bit which should be impaired is only a bit of our total overall change program, and it doesn't just relate to Motor. And I think just on the timing, we've kind of decided that it's – we can take our time to get it absolutely right because as of today, we are really competitive in the market, we are winning market share at good loss ratios. A part of that is testament to the fact that we haven't been sitting still on our systems to-date. Our digital experience is really good. We win awards for customer experience right now. So we have somewhat the luxury of taking our time to make sure it's absolutely right. Recognizing that we're building systems for many years ahead. So we don't feel uncompetitive now.

We'll give you a sense of the sequence of what will come out and this is not one big burst. As our approach is to all systems, we continue to release things in stages, in phases, and therefore, we will give you a sense of what those future phases are at year-end.

Q - Greig N. Paterson {BIO 6587493 <GO>}

(29:48). Just trying to understand the logic. My understanding (29:51) for example has been the models we're using are being implemented by our team internally, and you spoke to an external team. Is that cost that's cheaper or just basically an internal team wasn't (30:04)...

A - Paul Robert Geddes {BIO 2474781 <GO>}

We do these things in the right way for us and in a most effective way, and we'll use the people who're best able to do that.

A - Anthony Jonathan Reizenstein

Yeah. We can't...

A - Paul Robert Geddes {BIO 2474781 <GO>}

(30:16)

A - Anthony Jonathan Reizenstein

(30:17), but we work with the right people and...

Q - Greig N. Paterson {BIO 6587493 <GO>}

I'm just speaking to IP, the internal IP in the company, that's obviously something one pictures as a positive or negative for various companies. So, I'm just trying to understand or maybe the top management suddenly decides (30:34) with its own internal IP. Is that (30:36) so just want to try and get to – trying to understand your thinking.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. I don't think it's about IP. What we're saying is bringing these systems together has been done many times before. We continue to (30:47) people have got that experience. So, I don't think it's...

A - Anthony Jonathan Reizenstein

Our IP is all our data and all our great people do pricing, and propositions, and marketing. All that's entirely our own, and it's a continuing set of teams and experience we've got.

A - Paul Robert Geddes {BIO 2474781 <GO>}

And the other way of thinking about it, Greig, is this – we're buying packages, proven packages. What we've built within those packages, the products that we build, the pricing models that we build, that is where the IP exists, and actually that build's gone pretty well. So, that's not really what we're talking about here. This is purely kind of the linkages and the data interplay to make sure that we've got (31:22) performance we need now but actually in a (31:23) systems quickly, and that the message on the amount of data and processing we consume is affordable. So, really, the IP actually, I think a lot of it does fit in the – how we build the package and the products, and the pricing algorithms that we build within them rather than the products themselves.

Q - Greig N. Paterson {BIO 6587493 <GO>}

I'm sorry (31:40). You've spoken in the past about getting a noncorrelated pricing team in certain footprint in Motor, for instance, that you for some reason are not pricing, and you'd like to price. Has there been any progress in that regard?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes, it's true. That's moving ahead well. Again, we'll give you an update at year-end, but I mean, we – at the half year, we set out a number of initiatives which are a subcomponent of the conversation we – are much more than, let's say, we've just talked about. So, again, medium term, we do feel alternative pricing is a big opportunity. We are progressing really well with it. We're excited about it. Again, we'll give you more updates on that. And again, that just shows you the specific rework that we're talking about is just a component of a much bigger program on many different frontiers including alternative pricing that's moving ahead to plan and to expectation.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Thank you.

Operator

The next question comes in from the line of Wajahat Rizvi. Please go ahead.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Hi. Good morning. This is Waj Rizvi from Deutsche Bank. I'm afraid I have a couple more questions on impairment charge again. So, just wondering is the impairment charge in 2016 and 2017 both related to a specific system or platform you're using, or is it more broad-based, and you have just decided to take it in lumps?

And secondly, does it mean you would need to keep investing for longer or invest more to get that right speed of connectivity, which you didn't really achieve with these investments? Thank you.

A - Anthony Jonathan Reizenstein

I think I've already answered those, actually, to be honest. I think what we said we're doing a broad-based set of programs, and, yes, the – where we – it hasn't gone perfectly. It's not down to one thing. It's down to one or two certain things. And in this particular case, it's down to connecting things together. In terms of, will it cost us more? Well, we said we're going to spend a certain amount. We said £80 million to £100 million over the next couple of years. So this is not going to change that, and I think we've answered that one already as well.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Yeah. Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Okay. Let's get some more questions.

Operator

Okay. The final question comes in from the line of Dom calling from Exane (34:01). Please go ahead.

Good morning, everybody. Just one question left for me, and I promise it's not about impairments, but it is on Ogden. We've known for some time now the government is looking at 0% to 1% as proposal. As you've said, it's highly unclear whether that will arrive and when it arrives. But thinking about the scenarios, are you able to give us any sense of what, A, the reserve release might be at 0% or at 1% for your results and, B, what do you think the market price impact might be at either end of that range, just to give us some sense of that? Thanks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yeah. So, let me do this the market thing. All we can say is that the – we've said that the change down to minus 0.75% was probably kind of growth 6% to 7%, I think, roughly 6% to 7%, so you can do your own math. It's obviously not linear. You can do your own math at what the answer might be at different stages.

Just to be safe, 0% – the government's proposal, they don't know the answer between 0% and 1%. There's quite a lot of subjectivity even when they set out the guidelines about where the rate actually settled depending on the basket of investments they choose. So and 0% and 1% are quite different.

But, John, do you want to talk about the...

A - Anthony Jonathan Reizenstein

Yeah. So we're doing some work because we know people will want to know those sensitivities update, and we'll do that for you at the year-end. But some things to think about. First of all, obviously, since we first showed the impact which was at the year-end, we've had a release from Ogden reserves at the half-year of about £50 million, which you know about. That'll obviously have some impact. Then we've had some settlement. Paul said we've had about 20 settlements so far with the rate that's being part of that settlement. So that will have an impact.

Thirdly, obviously, general changes in our BI reserves which tend to be down, will also have an impact on that sensitivity. So we're – it's a good question. We will update it at the year-end. We haven't quite got the answer right now, but we'll give you that.

Q - Operator

Thank you.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Good. Anymore questions?

Operator

We currently have no further questions coming through. Okay. We do have one last question coming through from the line of Andrew Crean calling from Autonomous. Please go ahead.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Sorry about this. PPOs is what I wanted to ask. But we've seen from the Institute and Faculty of Actuaries, a continuing fall in the propensity of PPOs, and obviously with Ogden, at minus 0.75% or (36:43), they are likely to be less used. Could you talk a little bit about your experience, and talk about your capital sensitivity to a lower assumed PPO rate?

A - Anthony Jonathan Reizenstein

I think that we – propensity, clearly, has come down. It was coming down actually before all the noise about Ogden, and we adjusted our assumptions. I think we talked about that at the time of the Ogden hit. We don't have any more to say today. And I imagine we'll try and say something again maybe at the year-end. On the other hand, it might depend on what's happening with Ogden, if that's still out there – this uncertainty. We (37:27) I think the challenge we had last time for us, I think, which was could everything move to PPOs. It seems like it's not that – it's not going to happen.

And on capital, I don't (37:43) have an answer right now. It is quite complicated set of things and depending on what the Ogden rate is. I know it's different when Ogden rate is negative, when Ogden rate is positive. So, I think I'm going to leave that for now and maybe we can come back to that later.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. Great. Thanks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Very good. Any more questions?

Operator

We do have a question coming in from the line of Paul Walsh (38:06). Please go ahead.

Good morning. I understand it's been mentioned once or twice in previous questions, but can I just – to clarify on terms of Ogden, have you changed your assumption about the Ogden rate since the Ministry of Justice report came out and how has this affected your reserves?

A - Paul Robert Geddes {BIO 2474781 <GO>}

So, I'll answer in a slightly obscure way. And we're always slightly cagy about how we talk about pricing. The reserve point of view, nothing's changed and that we still have the minus 0.75% assumption in our reserves. In pricing, we do have to have some risk-weighted assessment of future claims trends, including whiplash and Ogden. And so, it has to be somewhat in our thinking because we write a policy now. The claims may will suffer in a few years' time, so we have to have a view of it. But we're not saying it's not mechanical and we're not saying that the percentage of that which is put into our pricing. But it's obviously a consideration. I hope that helps, Paul (39:08).

Q - Operator

Thank you.

There are no further questions coming through.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Right. Well, thank you, everyone, for your questions this morning. Listen, we're really pleased with how we traded this quarter. Good momentum in our own brands, a third of a million policies, good margins. We've got quite a busy year-end from all the topics which we discussed this morning. We look forward to speaking to you on that at the end of February, if not before. So, thanks very much for your time.

Operator

Ladies and gentlemen, thank you for joining today's call, and you may now replace your handsets.