Q1 2016 Sales and Revenue Call - Trading Update

Company Participants

- Anthony Jonathan Reizenstein
- Paul Robert Geddes

Other Participants

- Andrew J. Crean
- Ben Cohen
- Gordon Aitken
- Greig N. Paterson
- James A. Shuck
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

Operator

Thank you for standing by and welcome to the Direct Line Group 2016 First Quarter Trading Update. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. I must advise you that this conference is being recorded today, Wednesday, the 4th of May 2016.

I would now like to turn the conference over to your speaker today, Paul Geddes. Please go ahead, sir.

Paul Robert Geddes {BIO 2474781 <GO>}

Thanks. Good morning, everyone. Welcome to our Q1 trading update. As usual, I'm joined by John Reizenstein and other members of my management team. As it's only been a couple of months since our full-year results, I'm going to keep it brief today. I'm going to kick off with the trading headlines before handing over to John for a few words on costs and investments.

Overall, as you can see, we've made a good start to the year. We delivered a strong trading performance in Q1 and achieved another quarter of growth. Overall written premiums were 4.2% ahead of Q1 last year. We continue to grow our policy count in both Motor and Home own brands. It was a particularly busy quarter for our Motor division. Our strong propositions, particularly in Direct Line, plus competitive pricing helped us to benefit from recent changes in customer shopping behavior. We grew premium by 10.5% versus Q1 last year. We maintained our strong levels of retention and our own brand policy count continue to grow.

At the full-year results, we said that the increased competition in the Motor market, historically seen in January, had abated with pricing up a little in February. This pricing trend continued into March and together with the IPT increase at the end of 2015 led to more customers shopping around. Our risk-adjusted prices excluding IPT were up around 9.4% in Q1 versus Q1 last year, albeit this is against the weakest comparative quarter of 2015.

Whilst I'm on the subject of Motor, let me give you a brief update on claims trends. In summary, the trends are broadly in line with what we said at the full year, with overall claims inflation running at around 5%. On large BI, you'll recall that in March, we told you there have been some positive developments from the 2014 and 2015 accident years. These trends continued into Q1, and we believe that we have prudent reserves against these accident years.

Moving on to Home, which is a different stage of the cycle to Motor. Following many consecutive quarters of price deflation in the home market in Q4, we highlighted an improvement as rates appear to show some signs of stabilizing. And this continued into Q1 as market new business premiums were fairly flat versus Q4 last year. However, the market remains highly competitive with rates still lower than they were a year ago.

Against this backdrop, we grew our own brand policy count for another quarter and ended 2% ahead at the same time last year. This is a result of many initiatives to increase our competitiveness over the last few years, including strong brand propositions, combined with the benefit from pricing and claims projects. This has allowed us to reduce our risk-adjusted prices for our own brand by around 2% versus the same period last year.

Moving on to Home partners, this has a larger reduction in premium and policy count compared with our own brands, albeit the rate of reduction in that channel slowed a little in Q1. A few words on the weather, we had a fairly benign quarter, although many of you will recall Storm Katie, which hit the south of the UK in March. Claims in this event totaled around £5 million, which is well below what we'd normally expect in Q1, albeit we did have a similar picture last year.

In Rescue and other personal lines, GWP was up 2% versus the prior year although policy count was down due to reduction in packaged bank account volumes.

In terms of Rescue, this remained a highly competitive market. However, we continue to grow GWP with premium up 4% in Q1 versus last year. Within that, our Green Flag direct offering had another strong quarter growing both premium and policy count with IFPs now around 7% higher compared with this time last year.

Finally Commercial, this saw continued growth in the direct channel helping to offset competitive pressure in the broker business, particularly for larger accounts. Commercial premium was up around 2% versus prior year and in-force account was up 5.8% versus same period last year. We continued to grow at pace in the direct channel and have benefited for more customers shopping around following the IPT increase.

It was a particularly strong quarter for our Landlord product following a surge in purchases of buy-to-let properties ahead of the stamp duty changes.

So, taking everything together, we delivered an encouraging top-line performance in Q1 against a backdrop of mixed market. We've delivered a succession of proposition initiatives, continue to differentiate our brand and improve our customer experience from Direct Line Plus emergency plumbers to Churchill-sponsored lollipop ladies, as well as further enhancements to our pricing models.

In partnerships, our just add fuel telematics proposition with Peugeot Citroën has been expanded across more car models. And over in Commercial, we launched another full cycle eTrading product, (05:38) and today, Insurance Times awarded us the best eTrade provider for the second year running. The culmination of all these initiatives and many others underlines our commitment to improve our overall competitiveness enabling us to grow where market conditions are favorable.

Let me now hand over to John for a few words on costs and investments.

Anthony Jonathan Reizenstein

Thanks, Paul, and good morning, everybody. I'll talk about cost investments now. But just retail capital per se, all I'm going to say today is we're making good progress with our internal model application. And we're also making good progress with considering our risk appetite under Solvency II. I'm sure we'll be saying more about that at the half year.

Let's talk about costs. Our cost base in Q1 was just under £220 million, which is a little bit better than the prior year. Operating expense is up in the quarter partly due to IT costs. However, this increase was more than offset by a lower claims handling cost. Quarter cost can be bumpy, but as I've said at the full year, we expect total costs to be lower in 2016, albeit with a smaller reduction than in 2015. And this is, in part, due to the cost of Flood Re where the levy is expected to be around £25 million. This will all be recognized in the second quarter. So, overall, costs in the first half are expected to be higher than for the first half of 2015.

Moving to investments, you'll recall that it was a pretty volatile quarter in the debt market. But against this backdrop, we managed to maintain our income yield of 2.4% with income of £41 million. On gains and losses, you will have seen that we've reported a net loss of £7.7 million. These losses mainly arose from the sale of certain high-yield securities following credit downgrades. Conversely, market volatility in the first quarter led to an improvement in the AFS reserve which increased to £41 million at the end of March and has increased further since then. The outlook for investments remains unchanged. We still aim to achieve an income yield of 2.5% in 2016 albeit on a lower AUM. And in terms of gains, despite the increase in the IFRS reserves in Q1, we still expect to recognize much lower gains in 2016 compared with previous years.

So, a brief wrap-up before questions. Overall, we think it's a good start to the year from a trading perspective. And we reiterate our expectation of a combined operating ratio in the range of 93% to 95%. This assumes a normal annual level of claims from major weather events.

And with that, I will hand over to the operator for questions.

Q&A

Operator

Thank you. Your first question comes from the line of James Shuck from UBS. Please ask your question.

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

Good morning, James.

Q - James A. Shuck {BIO 3680082 <GO>}

Good morning, everyone. I have three questions this morning, please. Firstly, around the reserve development, you talked about the positive development from large BI particularly on 2014 and 2015. And in your opening comments, you also mentioned that that's carried on into Q1. I guess, when I think about your guidance for the combined ratio of 93% to 95%, it seems that you're saying that the level of reserve releases that we'll see in 2015 will be higher than the normal level because of that large BI experience. So, I guess, I'm a bit surprised why the 93% to 95% hasn't been lowered a little bit to take into account that higher level of reserve development. That's my first question.

Secondly, around the higher IT costs in Q1, I appreciate there's some (09:27) lumpy nature to that and you've been quite clear that the guidance hasn't changed for the full year in terms of an absolute decline in 2016. Again, I'm interested in your new policy administration system and how that's being expensed and when you're going live with that. I think, in the past, you talked with some excitement about what this new policy system will mean in terms of the customer experience. So, I was just looking for an update on that side please.

And then thirdly, again, you referred to better retention on Motor and Home. Could you tell me what the actual retention rates are in both Motor and Home, please, and what they've moved to?

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

Let me just say one (10:08) very quick. I'll hand over to John in a minute or two. So, listen, I think we disclose probably a lot more than most people now at the quarter. So, on retentions, I mean I think this is sufficient to say, we've kept retention at our good levels. I wouldn't say it's particularly gone up or gone down but, I think we've kept the retention levels. We're not going to give any numbers. I think that the quarter going (10:28) will be more disclosure than anyone else would give. John, on realty?

A - Anthony Jonathan Reizenstein

Yeah. On the two prior years, we talked about 2014 and 2015. Obviously, we've got some more data points essentially since we talked last. Actually, really, when we think about it, there's only one data point, which is the Q1 reserve review, and that's confirming. We were feeling a bit better about those two years at the end of last year than we were earlier in the year. And so, that's kind of giving us more confidence in that.

We set the 93% to 95% target for COR just a few weeks ago. It'd be great if we could change it. But at this point, it's too early and, obviously, if we do think there's any upside we did this last year. If we didn't think there was upside, we'd tell you at the time. And at this point, we're sticking to 93% to 95%.

Q - James A. Shuck {BIO 3680082 <GO>}

Is it fair to assume though that based on the commentary that you've given on that large BI that reserve releases, as you see them today, will be slightly above what you'd see as a normal run rate?

A - Anthony Jonathan Reizenstein

Well, we said they've been a bit lower than last year. And at this point, we're sticking with that. Should we have more evidence that tells us something different, we'll say so. But at this point, we don't want to change the guidance.

Q - James A. Shuck {BIO 3680082 <GO>}

Yeah. Okay. Thank you.

A - Anthony Jonathan Reizenstein

But, obviously, we're more confident – a little bit more confident about it than we were. On IT costs, you asked about the new system. The new system's in build. So, it's not yet in our run rate – our run cost of IT is building up the intangible. When we go live, it will come into our run costs as amortization and we've always said that this is one of the things in our costs that will go up, whereas we're endeavoring and succeeding so far in getting many of the other things to go down. So that hasn't happened yet. And we can...

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

Yeah. I mean we're still – I'd say excitement is still the prevailing emotion, albeit these things are never really complex and we are not skimping on testing, and we'll launch when we're ready to launch. I mean, as you can see from our results, we're under no kind of commercial imperative to do this. We think it will be better when we launch it and we'll launch it when we're ready, and we'll give you an update again at the half year about how we're looking.

A - Anthony Jonathan Reizenstein

(12:40)

Q - James A. Shuck {BIO 3680082 <GO>}

It seems like it's been delayed a little bit, doesn't it? I thought you were previously talking about H1 2016.

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

No. No. At the last results, we said we would continue to make progress on it. We haven't indicated the time. We just want to give ourselves the option of exactly when we turn it on, when we're ready – as I said, a lot of testing. There's a lot of operational readiness to make sure everyone's – all the businesses. This isn't just a frontline thing (13:04) system. So, we don't want be rushed into giving a date. We'll launch it when we're ready and we'll update you more – but yeah, we're right in the middle of testing it now and we'll give you an update more at the half year.

A - Anthony Jonathan Reizenstein

And I'd just say it's not just a sort of replacement. I mean, this is going to give us lots of really interesting things on pricing, which I'm sure we'll tell you about nearer (13:24) the time.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Looking forward to that. Thank you.

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

I'm personally (13:27) experienced on those stuff. So, we are excited but taking the testing product (13:32) very seriously, and we'll give you an update at the half year.

Q - James A. Shuck {BIO 3680082 <GO>}

Great. Thank you.

Operator

Your next question comes from Greig Paterson from KBW. Please ask your question.

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

Good morning, Greig.

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

Good morning, gentlemen. Three easy questions, as usual, from me. Partnership brands and Home, can you give me some kind of (13:54) rate increases? Second question is – I mean partnership volumes have been slower. You've lost two deals, my understand from talking to the industry that was to do with IT and the willingness or ability to invest in systems that help your partner. You mentioned some comments now about looking at investing there. What is the plan, the strategy here to stop the sort of attrition rate that you see in your partnership brand, concrete stuff that you're doing?

And the third thing, obviously, you've had downgrades in sales, i.e., de facto default. So I was wondering how in terms of sterling million of assets that you have that have been downgraded that are potentially sales and realized losses?

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

Okay, Greig. Yeah, John will deal with the last point.

A - Anthony Jonathan Reizenstein

Just on the last one, we operate two watch lists, one is an impairment watch list which is an absolute could we lose money on this? And there have been some companies on there, but there aren't any at the moment. And then we have another watch list which is more a downgrading watch list because essentially within a high yield, we don't want to hold any stocks that are rated below B. And that's built into our mandate, and actually it's put us in good stead because most of the pain in high yield has been below B. So, we're not core (15:20) sellers of B, but we prefer to exit the B.

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

What's the list look like in size?

A - Anthony Jonathan Reizenstein

We only have one company on the list that is potential downgrade below B, which isn't an energy company at all. And it's actually trading above the price we bought it at. So, we're not worried about it.

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

And how much was that? Could you say?

A - Anthony Jonathan Reizenstein

It's a total – it's two bonds with a total of about £7 million.

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

Right.

A - Anthony Jonathan Reizenstein

But it's trading above the price we bought it at so if we had to, I think we'd be all right or if we decided to.

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

Greig, on partnerships, listen, we're not going to break out rate on partnerships. But let me – I'm going to give you probably a similar answer to what I said a week ago at the year-end on where we are with partnerships. The two we lost are for different reasons. The Sainsbury's one we don't think has gone (16:10) to a pitch with – against other monoinsurers. So, I think about our approach to insurance, and you have to ask them for more details. But I don't think that's a judgment on us.

Clearly, the nationwide deal we said at the time we think is a reflection of potentially – if it was a reflection on us, it's probably a reflection on how we worked maybe two or three years ago. And I think a reflection on our proposition to partners today I think is very, very competitive in the market without an external validation that we are good in the market in terms of what we can offer on the partnership proposition.

Our ambition is to be even better than that. We continue to invest in our partnership capability. That won't immediately monetize itself into new partnership wins because the gestation period of new partners is somewhat slow. They only come up every three to five years. You need to be kind of in the market. So, we're gradually kind of getting back into the market known and given the capability, that would probably take some years to turn into new business wins. But we – it is a kind of core part of our strategy. We do think we are an excellent company, the manufacturing insurance propositions, service experience, pricing claims.

And to the right partner, we think we're a very good partner and as we get even better digital, we were able to give excellent digital experience, excellent customer experience, really use the data. But know that we don't want every partnership either. We want only partners with active brands, that have great customer access, that have good data, that have great customer contact. So, for the right new partners, we think we'd be an excellent partner in the future. But don't immediately imagine that we're going to suddenly win 10 new ones that's going to massively alter our volumes in the short term.

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

Thanks. Just one other question. It's a question I'm getting all the time about automated cost in (18:03) the industry. And your comments around, you're now moved to automated braking. You have a product out there. You're dealing with partners and stuff. Could you just update us on what your strategy, what you think the impact is? I mean (18:18) saying you're having horrendous accident from these automated cars because automated cars follow the rules and lorries don't. So, they get crushed, and all the others are saying, well, it's the death now of the industry. So, what's your strategy? What's your view there?

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

Yeah. It's somewhere in between the two. So, I mean listen, there may be some short-term noise there. We don't (18:36) come out with some interesting kind of cautionary stuff about the short-term impact. This is long term. We think long term, cars will get safer as a result of technology, and that will be a deflationary pressure on our market. It's going to take quite a long time to do that. These features are already part (18:51) of some new cars and obviously, (18:55) new cars, and then that to go through to the car park is many years.

So, probably in terms of people short-term models, I think it's not going to be a major change to that, but I think that could lead us to underinvestedness, and our own stance is to take this extremely seriously and to look for the opportunities in it. We do set out to be the market leaders of ensuring safer cars, which we think requires new competence in assessing safety features and preemptively pricing it, and that's why we are getting off to autonomous emergency braking.

We do think that as cars have more of their – in some of your journeys, as is the Volvo proposition, there's components of your total trip, which is more autonomous. We do think that is an interesting proposition and car companies need to work with insurers we think that would provide propositions to enable the customer to have one seamless insurance proposition.

So, we are talking actively to manufacturers to understand their plans and to be the insurance partner of choice to those sorts of companies. So, we are actively looking at the opportunities in this recognizing that probably, from total market point of view, it is probably deflationary albeit not precipitous in the short term just because of the aging of car park (20:14).

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

Do you think that there's a bias as your business will be moving more towards fleet and commercial versus retail?

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

Not necessarily. But listen, I mean, it is – we obviously have a commercial insurer that means that we can play across those different groups. And we are mindful of potential changing ownership models as well. The key thing for us to be is not to try and see the world through the lenses of our current business mix or business model because that's a really bad recipe. So, we're very, very open-eyed and optimistic about what – well, optimistic for – it's obviously good for cars to have fewer accidents for the world. We're looking for the opportunity in it. And so, we are mindful of potential changes to ownership models as well albeit, again, we think that'll be relatively slow to really impact the numbers.

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

Thank you.

Operator

Your next question comes from the line of Gordon Aitken from RBC. Please ask your question.

A - Anthony Jonathan Reizenstein

Hey, Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. A couple of questions please, first, on pricing. The motor market seems in the UK a little bit more disciplined. Is that your feeling and what do you put that down to? And second, there's been a big increase in deaths in – whilst in 2015 in the UK. They're saying it's just a 7.5 standard deviation event. Any impact on your PPO reserves?

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

Right. I mean, on the first one, Gordon, I'm going to be predictably boring on, A, limiting my comments to the past, not the future. I think the only thing I've said which I've kind of, I suppose, reiterate is we have potentially associated Solvency II as the reason why potentially some domiciles look to us that they have been slightly less price competitive over the last couple of – last year or so. That could be a kind of – some harmonization of capital as people go toward Solvency II.

I wouldn't read anything else with the market. And obviously, future pricing is somehow – no insight into or control over. So, I'm going to leave that to see. But obviously, it's a more positive – it had been, in Q1, a more positive environment.

The other thing I'll just say whilst I have the chance to say, obviously the 9.4% we recorded is against a soft comparable last year. We've got some stronger comparables in the other three. It is written. It will take some time to run through. It is just a quarter. But you're right. It has been a more favorable market environment recently. John, death?

A - Anthony Jonathan Reizenstein

I'm not quite sure what Gordon's getting at there. I mean...

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

Here we go again, Gordon.

A - Anthony Jonathan Reizenstein

(23:02) yeah. On deaths.

Q - Gordon Aitken {BIO 3846728 <GO>}

Well, I mean it's just that the number of deaths in UK in 2015 was huge. I mean, we've had years of improving life expectancy and it's come back recently in the last five years and particularly in 2015. I mean, obviously, your only impact on that would be – in the long term would be sort of PPOs. I was just wondering if that has had any impact. I mean the actuarial tables are changing albeit slowly. So, life expectancy is coming down.

A - Anthony Jonathan Reizenstein

Yeah. Interestingly, on PPOs, of course, it's very, very specialized. It's a very special part of the population. There are no tables for deaths of people (23:45) bodily injury cases. Occasionally, we do have a life expectancy and longevity, a function obviously in our PPOs, but each one of them is looked at individually based on the medical evidence. And very occasionally, one of those might die earlier than you expect, and you might be family

(24:08), you might get a reduction in the claims cost. But it's very much on a one-on-one basis. We're just talking about a very small hundreds (24:16) number of cases.

Q - Gordon Aitken {BIO 3846728 <GO>}

Great. Thank you.

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

Heidi? Someone? Hello.

A - Anthony Jonathan Reizenstein

Heidi?

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

Seems we lost the operator. Heidi, are you there?

A - Anthony Jonathan Reizenstein

We have lost the operator.

Operator

Excuse me. This is the operator. Sorry. Your next question comes from the line of Andrew Crean. Please ask your question.

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

Morning, everyone. A couple of questions. One on the expenses. I mean the expenses quarter-to-quarter have been pretty flat recently. It's about £220 million. Now, if you're going to put in £25 extra million for Flood Re in the second quarter, I can see why expenses will be higher at the half year, but to get them lower for the full year suggests that there is a substantial further step-down in expenses coming in third and fourth quarter. And I'm wondering whether you could expand a bit on that.

And then in terms of prior-year reserve releases, I note the comments you've made on the 2014 and 2015 accident years, but the bulk of the reserve releases from past years has come on very old years. And perhaps, you could talk a little bit about what your last review suggests on those very old accident years where there isn't very much reserve left.

A - Anthony Jonathan Reizenstein

Yeah. On costs, you're right to say that, obviously, there's a lot of action to do to get the number down to where we said it would be. Where we'd see the improvements will be staff costs, we believe, will be lower. Claims handling, we think, will get some more savings through (26:26) some of that due to general costs including central costs and the allocation of those to claims handling. We think all those (26:36) to put in place and have plans to do and that will flow through to claims handling. And within other costs, there are elements in there where we're going to see improvement including property, professional fees and other areas. So, lots going on to achieve the number we've said.

On reserves, well, interestingly, that almost all those early years are still showing some signs of further improvement but you're right. I mean, it can't go on forever. And some of them are at already quite low numbers. But, yeah, they're all moving in the right – they're pretty much all moving in the right direction including those early years. Obviously, we're more focused on the more recent ones because that's where we've been concerned, but there's nothing going the wrong way among the others, and if anything, they're slightly showing improvement as well.

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

Good. Thanks very much.

Operator

Your next question comes from the line of Ravi Tanna from Goldman Sachs. Please ask your question.

Q - Ravi Tanna {BIO 16926941 <GO>}

Good morning. It's Ravi Tanna here from Goldman Sachs.

A - Anthony Jonathan Reizenstein

Hi, Ravi.

Q - Ravi Tanna {BIO 16926941 <GO>}

Good morning. I have two questions, please. The first one was on Motor pricing. I noticed from the recent industry surveys and the AA data, for example, that there seems to have been a quite a divergence in the first quarter between the rates on policies sold via Direct's channels compared with that on aggregated channels, with direct channel showing much stronger increases. I was just wondering whether this is something that you've picked up on within your own data or in your own books and that if it's something you could comment on please.

And the second question was just around home insurance pricing, and I was hoping for you to elaborate please on the potential impact of Flood Re and how you expect that to play out both in terms of pricing and coverage of households on your books. Thank you.

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

Yeah. Thanks, Ravi. Yes, on Motor pricing, we think it's pretty small data points, small samples and small differences. So, we wouldn't call out major different trends between the two.

Q - Ravi Tanna {BIO 16926941 <GO>}

Okay.

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

Flood Re, I mean, a few things there on Flood Re. The most certain thing about Flood Re is we will get charged £25 million, and you'll see that in the expenses line. You could associate that potentially with the fact that prices have been more stable in the market because of how concessive that (29:04) £25 million was a levy of the many to pay for the flood risks of the few.

And we'll never really be able to scientifically take the sugar out the teeth to prove it but you could say, there's some evidence that that levy is being passed on. It's a couple of percent. So, again, don't expect me to be able to scientifically prove that. But you can associate potentially that with another quarter of flatter pricing in the market.

In terms of the immediate impact, I think it's going to be – it's early days. Only about 40% of the market's got on to it because it's got some technical challenges for some people. We've managed to get on to it. We are feeling quite cautiously (29:45) initially the most obvious homes that are the most obvious beneficiaries of it. I'm not sure what exactly what competitors are doing. I think the notion that suddenly you're going to put into play hundreds of thousands of homes that's suddenly going to massively go into the switching market, I think it's probably not all we'd expect to see.

For one good reason, which is, it may well be that insurers like us will just write to customers their benefit from the scheme saying hey, guys, great news. And so, those customers may not necessarily immediately, therefore, want to go and switch. They might be very, very happy with their current insurer giving them a lower price. So, I think it will be smaller impacts, probably taking a bit longer, very early days, but probably the most obvious features of it is another quarter of pretty stable pricing and £25 million bill for us.

Q - Ravi Tanna {BIO 16926941 <GO>}

Understood. That's very clear. Thank you.

Operator

Your next question comes from the line of Ben Cohen from Canaccord. Please ask your question.

Q - Ben Cohen {BIO 1541726 <GO>}

Oh, hi. Good morning. Thank you. I just wanted to ask on the Home side in terms of the improvement in the claims trends and the fact that that enabled you, it sounded like, to continue to reduce your pricing on your own products. And I suppose on a follow-up on Flood Re, on the same side, should we expect any sort of benefit from those changes in terms of the sort of claims trends that you would see or at least in a sort of in a large event would you expect kind of less weather or I suppose it's flood-related losses? Is there a benefit on the other side? Thank you.

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

Yeah. I mean I think on Flood Re, if we're to rerun the floods of the winter, we'd just see they're the kind of things we're afraid to see. We've seen a bit of help. But it certainly wouldn't have wiped out most of the costs that would be helpful, but a minor contribution to the total cost number.

Listen, on Home, we've just been doing, as we have on Motor, just a whole range of pricing and claims initiatives. And we've kind of made a bit of our own luck in terms of being able to be more competitive in the marketplace when it comes to similar loss ratios. As I've said before, we slightly see different outcomes on Motor and Home.

On Motor, we seek to – once (32:12) our target loss ratios, we want to write them out to (32:15) the business as we can or shrink offset (32:17) those loss ratios. On Home where we want to keep our franchise healthy, and that means that we trade quite hard in the home market; and so far, we've managed to do that whilst protecting our loss ratios by all these great initiatives that we've done. Don't want to talk about the future, obviously, for all good reasons.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry. Could I ask a follow-up? Just on the Rescue one, on the sort of the drag from the packaged bank account, is that something that is going to continue because it sounds like the COR is doing well but actually overall you're still sort of going backwards there?

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

Yeah. I mean, I think just remember on Rescue, there's kind of three parts of our offer: the linked sales, those are stuff whilst you're buying Motor, people buying Rescue at the same time. Then there's Green Flag kind of direct business and then there's the packaged bank account. Each have a different role in the portfolio. Packaged bank accounts are very useful for scale, which is it helps for doing (33:20) Rescue, but it's much less premium per policy and less profitable.

So, if we're losing any volume, that would be the volume you're least concerned about losing, albeit we'd still like to renew these sorts of partnerships because it does give you some operational efficiency. It means that you have more vans and you have more drivers. But really, where the action is, from a kind of contribution point of view, is on the direct and the other linked. And on direct in particular, we're having some real success in the market; along the way, that continue. (33:50)

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you very much.

Operator

You have a follow-up question from the line of James Shuck from UBS. Please ask your question.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi again. Thanks for taking my follow-up. I just wanted to ask about your competitive benchmarking, particularly on the Motor side. So, when you look at your claims processes and your pricing systems, where do you actually sort of – how do you compare on both of those? And what are the areas that you still need to kind of improve?

And then sort of linked to that, could you just kind of give an update on the Net Promoter Scores across your business? Because I know that's been a key focus for you. What are the areas across different parts of the value chain that perhaps are underperforming and where you're looking to drive them up? I think, at the full year, I was asking you whether you actually increased the Net Promoter Scores, whether there's actually any tangible benefit on the business, whether that's through retention or through cross-sell. So, if you're going to, actually, give some hard numbers over what that might mean if you're able to improve that, that'd be very helpful. That's my first area of questioning.

Secondly, just a more general one, really, is just around the future price comparison because lots of companies now are doing more multi-car telematics business. There's partnership business in different ecosystems emerging and fleet is likely to grow. Do you see price comparison as kind of having really peaked now and that the future of it is perhaps going to be a little bit more difficult?

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

Well, great questions and I could probably do half an hour on those, but let me try and do slightly more concise versions. Listen, I'm not calling the demise of price comparison sites. I think that the inexorable rise of them though was contributed to by insurers, frankly, not differentiating their direct propositions or giving customers good reasons to come direct. And if all products were exactly the same and there's no differentiation, then you could see why more and more customers would go to price comparison sites.

So, I think, it's easy to look and fight back (36:02) but, I think, just giving people, saying Direct Line, you can't run price comparison websites. It's a great price. It's fantastic service. It has product features that you can't get anywhere else, service guarantees, free guarantees, higher cost, seven-day proposition on – we'll pay you upfront in seven days, no amendment fees plus a good price, plus the fantastic customer experience either digital or direct or a mixture of the two. We suddenly give customers reasons to go Direct. And Direct, finally have customers respond to that by buying more Direct.

So, we're not saying, okay, we don't have a strategy for price comparison sites, which are the prevailing way people buy car insurance today. So, I think it'd be foolish of us not to also put a lot of effort into making sure that our brands are in great shape on price comparison sites, where brands also matter.

So, we're backing both horses (36:54), but it is somewhat gratifying to tell you that, actually, if you do give customers a reason to do something, they do. And I'm encouraged by the trend. It's a very - obviously, we're not neutral today, having a leading Direct brand. We're not neutral to the outcome. But we're not kind of planning on necessarily the demise of PCWs. We work very closely with them. They're key partners of ours.

I think on benchmarking, probably a few years ago, we spent all of our time look up competitors and ranking and everything, and I think probably I'd say as a sign of our maturity is that actually we're much more focused, for example, on pricing, about what are the new things in the future? What can we learn from other industries? What's the latest in science (37:38) doing? And really that's probably an indication of we think that we've got more to learn externally. Not to sound arrogant at all but I think we're there or thereabouts versus most industry peers on pricing, and therefore, given our ambition to get better and better and better, all these things we're looking probably more broadly in terms of comparator groups there, claims all our benchmarks and continues to say (37:59) settling claims quickly and we continue to believe that we are at least top quartile in terms of claims performance.

Our Achilles' heel, if there is one, is probably still costs we are - we can't say we're the best at costs. Now, a lot of those costs are good costs and I think (38:21) Net Promoter Score point where we continue largely in most areas of Net Promoter Score to move forward is we think that's good cost and that monetized itself in retention rates. It monetized itself in customers.

There's a huge amount of shopping and we're doing particularly well when that happens. Why? Because we have famous brands and we've got a good reputation. So, we do think a lot of our costs are good costs but the reason we are continuing to reiterate ambitions to get our costs down is we still have some bad costs, which over the next few years we need to keep an eye on because that's probably the weakest part of our competitive position. And we are determined to bring down the bad costs. We will never look like a low cost insurer in aggregate because we continue to believe that the marketing costs and the starter costs that we have associated with customer service and brands are monetized back and are good.

Q - James A. Shuck {BIO 3680082 <GO>}

If I can just quickly follow up, I mean are you able to give me sort of any hard data that kind of says, well, every 1 percentage point improvement in the Net Promoter Score has 2 point improvement in my retention rate or X-percent impact on new business?

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

Well, we clearly - sorry. We go around winning lots of awards for this stuff, partly because there is some science. And we clearly do believe there are kind of mathematically proven correlations between, for example, NPS and retention rates. Whether we want to share all of that with our competitors is I'm not so sure. But clearly, listen, we're not a charity. We do invest choicefully in marketing. We do invest choicefully in customer service's average handling time.

We've taken a lot of our people off the phones to give them brand new sorts of customer engagement training, which we think's great. Our next-generation systems, a key premise of that is to give our colleagues even better tools to have a richer conversation with customers. So we are a net believer in it and we don't do that without foundation. But I'm probably not going to share all intricacies of our data with our competitors.

Q - James A. Shuck {BIO 3680082 <GO>}

Yeah. Okay. That's very helpful. Thank you very much.

Operator

You have a follow-up question from the line of Greig Paterson from KBW. Please ask your question.

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

Gentlemen, I'm back. But just a quick question. We've seen -the last two quarters, we've seen – and this is after stripping out the effects of the tax changes – quite a sharp on your increases in premium rates. Are you seeing – you don't have to name who they are. Are you seeing any other providers that are doing quite radical pulling back in all pricing points and in an irrational way? In other words, do you think there's anyone out there who has a balance sheet that is crippled and potentially on accident?

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

I mean, as we've always said, if you looked at our competitive tracking of competitor pricing, it looks like the London Underground map in terms of – it's not always one person doing everything. It's relatively small sample sizes, so as you probably expect, Greig, I'm not going to be drawn on any specific investors.

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

So, you're saying there's no – that you don't see any pockets within the area where...

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

There's nothing we're choosing to call out. Yeah.

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

Thank you.

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

Yeah.

Operator

There seems to be no further questions at this time. Please continue.

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

Very good. Well, listen, thank you, everyone, for joining. We will speak to you again at the half year. Looking forward to it. Thanks. Speak to you soon.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.