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Admiral Group plc LSE:ADM

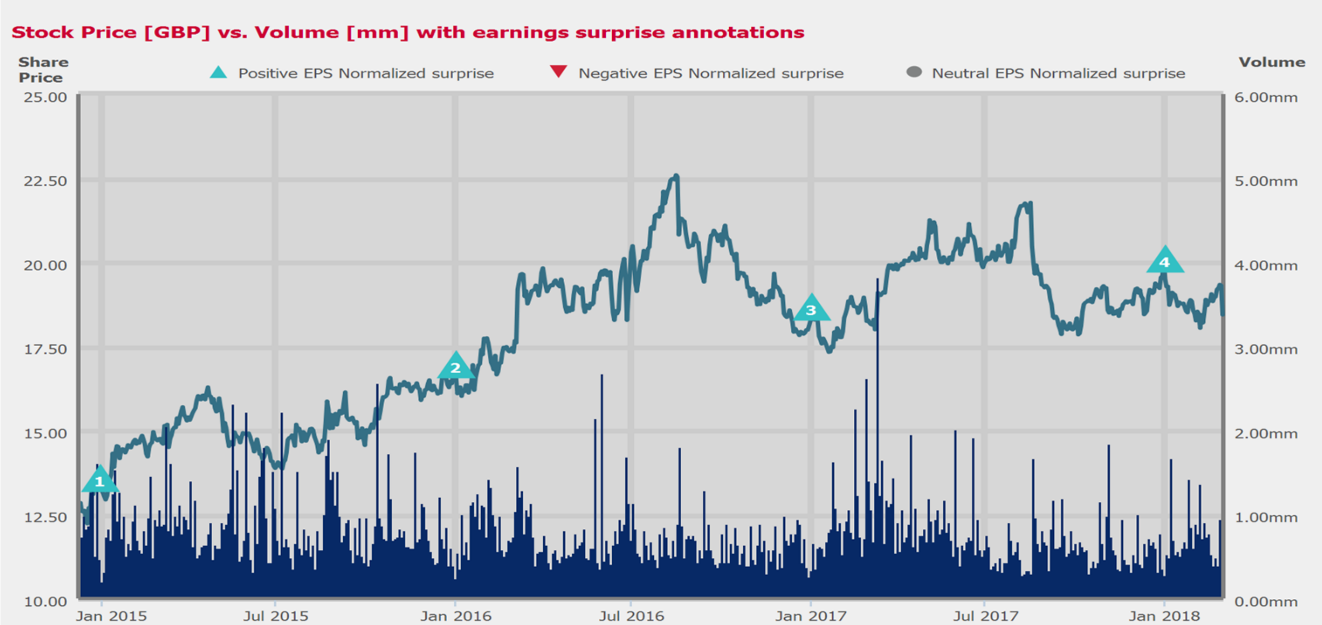
FY 2017 Earnings Call Transcripts

Wednesday, February 28, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.11	1.17	▲5.41	1.19
Revenue (mm)	604.61	619.10	▲2.40	660.31

Currency: GBP
Consensus as of Feb-26-2018 1:57 PM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FY 2016	0.99	1.10	▲1 11.11 %
FY 2017	1.11	1.17	▲2 5.41 %

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Presentation

David Stevens
CEO & Director

Good morning, and welcome to Admiral's 2017 full year results presentation. Thank you for battling through the elements to join us today. And thank you to Bank of America Merrill Lynch for hosting this morning.

Now Admiral started in January 1993, and so we're now 25 years old. And the 25 logo that you'll see throughout the presentation reflects that. To celebrate that, we decided not just to take the normal 6- to 12-month backwards-looking, forward-looking perspective on the business. We've also thrown in some longer-term perspectives as we go through the presentation. And I'll start with one of them. There's a picture of the founding management team, when we were 57 staff, 1 country, 1 brand, no customers, a slightly stiff and dour-looking bunch. And there we are today, 9,500 staff; 5.75 million customers; 8 countries; 18 brands; and as you see, a much bigger management team both collectively and, sadly, individually.

Today's presentation will be starting with myself. And then Geraint Jones, the CFO, will give a group overview before Cristina Nestares, the UK Insurance CEO, talks about our U.K. results. And I will come back to talk about the U.S. both insurance and Price Comparison before Milena Mondini, Head of European Insurance, talks about European insurance and Price Comparison. And I'll come back for a brief wrap-up.

Over to you, Geraint.

Geraint Jones
CFO & Director

Thanks, David. Good morning, everyone. I'm going to talk through some of the highlights of the results covering the turnover, customer growth, profits; move on to talk about capital and dividends. And then I'll finish with a brief update on Admiral Loans.

This is our usual highlights slide to kick things off. On the top, we show customer numbers and turnover. We're going to go into some detail on both of those figures shortly, so I'll just highlight double-digit increases in both again, with all parts of the group growing, particularly in households in the U.K. and generally things outside the U.K. On profitability, you'll have seen we're reporting GBP 405 million of pretax profit, earnings per share of 117.2p. Those are both record figures. Of course, the comparisons are clearly very impacted by Ogden that hit on 2016. And so the plus 43% and plus 49% need to be seen in that context, but it is good to get back to an upwards trajectory in profitability. A similar story for return on equity, 55% for 2017, a very positive number back in line with our usual historic performance.

And our full year dividend is 114p per share. That's 11% up on 2016 if you exclude the additional capital return we paid in 2016.

And finally, in the middle, solvency ratio remains very strong, still up over 200%, albeit a bit lower than it was at the end of 2016.

These are the top line figures from across the group. The picture looks pretty similar to recent reporting periods, strong growth in all segments, lots of green arrows. I'd particularly point to nearly 4 million motor customers in the U.K., which [covers] 4 million since the end of the year. We see more than 40% growth again in household customers and turnover, really pleasing figures again from household. And then in our international insurers, turnover was up by nearly 1/4, heading towards GBP 0.5 billion. And customer numbers were up by 1/5, breaking through 1 million customers outside the U.K., continued strong momentum. And more than 10% growth in the turnover from the Price Comparison businesses as well.

Moving on to talk about profits. David mentioned that Admiral turned 25 earlier this year. That's why I wanted to show the full profit trajectory since that first year back in 1993. Hopefully, you'll agree it's an

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enviable track record. Profits have increased in all but 2 years. And of course, 1 of those years, which was 2016, was due to the Ogden impact. And you can see that in the red dots. 2017's profit of GBP 405 million was over twice as big as the profit 10 years ago and was a huge multiple of the number 20 years ago in 1997. But let's look in more detail at 2017.

And here we compare the results for each of our segments compared to the previous year. The U.K. profit, as you can see, GBP 466 million, is a record. As I said earlier, the comparison is distorted by Ogden, and so I'll talk more about the U.K. separately. The International Insurance result improved again to a GBP 14 million loss compared to GBP 19 million the year before. That's mainly a factor of higher profits at ConTe in Italy, a fourth year in a row in profit for ConTe; a lower loss in the U.S. And that latter result come in despite the hit from the hurricane in Texas in 2017. The Price Comparison results improved to a GBP 7 million profit from a GBP 3 million profit, the main features there being reduced profits at Confused.com; great results from Rastreator and LeLynx in Europe; and reduced loses at Compare.com, which hit its marketing breakeven target for the year.

Last up is our other segment. And you can see that, that was up a bit in 2017, a variety of reasons. And then GBP 9 million of the movement, you can see explained on the slide. That's the first year of the Admiral Loans P&L, which was negative GBP 4 million. And 2016 included an unrealized gain on foreign exchange forward contracts. There's a breakdown of those costs in the appendix, if you're interested.

As I said, 2016 is not a good basis for comparison, so this slide looks back a year further to 2015. As you can see, the UK Insurance profit is GBP 22 million higher than 2 years ago. GBP 3 million of that improvement comes from household, where we have a much bigger book, a better expense ratio and a better loss ratio, which is a pleasing combination. And therefore, motor profit is GBP 19 million higher than 2015 despite earned premium being up by 20%. A key point to remember, of course, as you can see on the slide, is that the 2017 result is prepared on the basis that Ogden stays at minus 0.75% as a result of that change. That's about GBP 40 million. 2015 obviously had Ogden at plus 2.5%. And so the Ogden change is a key factor in understanding why the profit in 2017 is GBP 20 million or so higher than it was in 2015.

This slide also helps illustrate progress in International Insurance, where since 2015 we've doubled our turnover and reduced the loss by 1/3. More detail on our performance of our various segments shortly from my colleagues.

Changing subjects to look at capital. The familiar-looking slide here shows our solvency ratio is still very strong, again over 200%. The main movements since the middle of the year, as you'd expect, the second half profits, deducting the final dividend and some increase in the capital requirement which was mainly due to the growth in our balance sheet but also the expected volumes we see in 2018. There's no change to report in the basis of the calculations. We're still on standard formula plus the capital add-on. And we're making progress towards our internal model application later on this year; hopefully, getting approval in 2019. We still think at this stage that 150% is a good indicator of the upper end of our target range once we get that internal model approval, but of course, we do recognize that 200% is somewhat north of 150%. And to that point, I'll repeat the message of 6 months ago, which is that until we've got certainty over the internal model capital position, we won't talk more about any potential surplus capital position. And what I mean by certainty over the internal model position is getting the internal model approved.

Let's take a look at dividends. As you can see, we're proposing a final dividend for 2017 of 58p per share. In line with our guidance, we've looked to hit a payout ratio in the 90s. And 58p per share is 97% of the second half earnings, still leaving us with a 205% solvency ratio you saw on the previous slide. We repeat the formal dividend policy on the slide here. And I'd also reiterate that, unless or until we say otherwise, payout ratios in the 90s is a good guide for dividends going forward.

You'll need to be on the record on the 11th of May to get paid on the 1st of June.

At the half year, David talked about our aspirations to grow in areas beyond car insurance. And I'll just give a brief update on one of those areas that we hope will be an important source of growth and profit in the medium term. That's, of course, Admiral Loans. You can see that, at year-end, we had nearly GBP 70 million of loans receivable on the balance sheet. And recently, we've gone through GBP 100 million of

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lending to our customers. Given the relative size and maturity of the business, we're not going to go into too much detail at this stage, though some of the key messages in terms of our product and our progress are set out on the slide. We expect future -- further growth, sorry, in the balances due in 2018, assuming we remain happy with the performance and the KPIs. We're, of course, aware that there are potentially uncertain economic times ahead. And our focus is on building a prime book.

We aren't projecting a material change in the P&L. Guidance for 2018 is between GBP 5 million and GBP 10 million, up from GBP 4 million in 2017.

That's it for me. I'll leave you with some of the key messages: continued strong growth in all parts of the group; record profits, though still held back in the U.K. by Ogden; very pleasing early progress for Admiral Loans. And we've maintained a very strong capital position whilst paying out basically all of our second half and actually full year profits to our shareholders with dividends.

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

Cristina Nestares
Chief Executive Officer of UK Insurance

Good morning, everybody. I will talk to you today about the results of the UK Insurance operation. I will focus on the motor results, talking also about the market. And I will also cover household, but let me first start with a bit of historical perspective.

You can see here an ad, a yellow pages ad, from Bell from many years ago when actually yellow pages was our biggest source of business. Now about 20 years later, you can see a very different ad for Bell. Bell is now a telematics-only brand that we sell via Price Comparison, and it's helping Admiral to stay as a telematic leader in the market.

Now let's look at the highlights of the UK Insurance in 2017. It has been another good year of growth. In terms of units, our motor book has grown by 8%. And that includes a 5% growth in our car units, reflecting a slowdown in the first quarter of the year due to price increases after the Ogden announcement, but it also includes 120,000 vans that we put in the book at the year-end in the first year of operations for van. In terms of turnover for motor, it has grown by 13%. And that includes an increase of 11% in car, reflecting our price increases. In the case of household, both customers and turnover have increased by 41%.

As for profits, Geraint has already talked about them.

Moving on to claims in the market. The frequency of small bodily injury claims registered in the MOJ portal has continued trending down. You can see here in the graph it went down with about 12% in '17 following a 19% reduction in '16. So why is it going down so much? Well, we think it's a combination of safer cars but also change in lawyers' behavior. The prospect of a reform might lead to some lawyers to choose to focus on other sectors and less on motor. For 2018, it's hard to predict, but we'll work on the basis that we're not going to see such reductions in frequency.

On the right, you can see a graph about accidental damage in the market. And you can see that the trends for '17 and '16 has been very similar, flat frequency, an increase in severity, reflecting mostly an increase in parts. For '18, we're expecting a continuation of this trend.

So this is the market data. In the case of Admiral, our own claims experience for both small BI claims and accidental damage has been consistent with the rest of the market. In terms of large claims, it's actually much harder to comment on what is happening in the market because Ogden is causing a lot of disruption. What we can tell you is that for Admiral 2017 frequency of large BI claims appears to have been okay, especially in the context of Ogden.

So let's talk about market premiums. First graph is the ABI data reflecting increases but also taking into account that it includes an IPT increase in the middle of the year. The graph on the right shows Admiral times top index to the last quarter of 2016. So what you can see in this graph is that depreciation of the times top of Admiral at the end of 2016 and at the end of 2017 is actually quite similar. This indicates that

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Admiral has put prices up in line with the rest of the market. However, the timing of those price increases is slightly different, as we put prices ahead of the market at the end of 2016.

Now before talking about what are prices going to do in 2018 in our view, I want to talk about excess of loss. As we all know, the cover of excess of loss has increased its price this year. And Admiral, what we did in 2017, as a reminder, we put more cover to cover for the shock of Ogden because the prices in the market were fine in our view. So in 2018, we have gone back to our long-term average of around 8 million to 9 million but at higher cost.

So that's in terms of excess of loss. Let me talk about prices for 2018. Now 3 things that could affect what the market is going to do: first, excess of loss. So I just mentioned that prices in the market have gone up. However, from what we have seen in the market, we haven't seen any significant increase in market prices so far. Second thing that could affect prices is the claims environment we have seen relatively benign in 2017, and we expect a continuation during 2018. And finally, we think that the prospect of the reforms, as and if they become more concrete, could have an impact on prices. And some player might start decreasing prices ahead of the reforms. So overall, we don't expect a continuation of the price increases in 2018.

Moving on to the ratios. This is a slide that we have been showing for a number of years. You have Admiral data in blue and the market in red. However, as the market data is not being updated, it's becoming obsolete, so we might stop showing this comparison in the future. You can see the data for 2016 which we have taken from Deloitte estimates.

So for Admiral, the loss ratio [and then] high discount rate. And as you can see, there have been some development in 2016, '13 and '12. These decreases are less than what we have traditionally shown, and the reason for this is that Ogden is causing disruption in the settlement parters -- sorry, settlement patterns of large claims. And this -- in this environment of uncertainty, we prefer to take a cautious view. In terms of expense ratio, you can see that we continue to hold a significant advantage over the market due to our focus on cost control.

Reserve releases. Well, U.K. car reserve releases continued to be a strong feature of our results. Reserve releases in '17 were 21% ahead of the long-term average of around 15%. The margin in booked reserves remained prudent and significant, but it's slightly smaller in relative terms than the one at the first half of 2017. And going forward, we expect a -- continuing significant reserve releases if claims develop as expected.

So this is it for motor, but before moving on into household, another bit of historical perspective. In this slide, you have the other revenue per vehicle. Only a few years ago, it was GBP 84 per vehicle. And now it stands at GBP 64, quite stable in the past few years. So the reasons for the decrease are twofold: first, the ban of referral fees. And secondly is the fact that we have improved our products, which actually means a better outcome for our customers but lower margin for Admiral.

So in terms of households, I think the most important feature of our result has been the strong growth of 41% in a time where the rest of the market is not showing a lot of growth. So what are the reasons for this increase? I think there are 3. The first one is the fact that Price Comparison, which is our main channel, has continued to grow, as you can see on the graph. The second reason is that there have been price increases in the market. Admiral has also increased the prices of its household book, but it has lagged the market, which has allowed us to grow. And the third reason is that beyond Price Comparison we have increased our direct offering. We offer a multicover policy that allow us to cross-sell household policies to our motor book.

So strong growth in units and also improvement in our ratios. You can see on the graph on the right our expense ratio improved from 34% to 30% during the year due to increasing scale and a bigger renewal book. And I think it's particularly significant that we hold an advantage versus the market, which we believe stands at 45%. In the case of the loss ratio, we have seen an improvement during 2017. The good weather has helped, definitely nothing like today. So going forward, for household, we expect a continuation of the growth, possibly not at 40%. And we also expect an improvement in our ratios.

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So I would like to finish by talking about the customer because these results are only possible because the trust that the customer give us. Something very concrete that we have done to improve the customer experience during 2017 is to improve the feature of our products. And we're very proud to say that today all our products hold a 5-star Defaqto rating option. So that includes our car; our telematics; our household; and also the 2 products that we launched this year, in '17, that is van and travel.

So in summary, 2017 has been another good year of growth for the Admiral UK Insurance business. The car insurance market has seen increases, and Admiral has put increases in line with the rest of the market. For 2018, we do not expect prices to continue increasing in the market. And we have enjoyed a very good year for our household book with good growth in units and also improving our ratios.

So that's it for the insurance business. Now over to David.

David Stevens
CEO & Director

Thank you, Cristina.

So before diving into the U.S., I just want to take a longer-term, bigger picture perspective on international. 15 years ago, we were active in 1 country. Now we are active in 8 countries. I'd like to take this opportunity to apologize to the people of Sardinia for their exclusion and assure them that they can buy policies from ConTe.

Going on to the U.S. Elephant had a year of growth, 8% up in terms of number of cars covered; and a year in which the losses shrunk both in absolute and percentage terms, Admiral share of losses falling from $21 million to $16 million. What's driving this? Well, the primary reason for the improving result and surprising is continued improvement in combined ratio. So here you see the Admiral combined ratio compared with the market, in red. And Admiral has improved from 143% 3 years ago to 119% last year against some degree of headwind from the market, which has been unusually difficult for the U.S. auto insurance market with an increase from 103% to 109% over the 2 years to 2016. And I think it's probably about 107%, 108% in 2017.

So Elephant is on a journey towards profitability. And our projections show it coming to profitability and making a decent return on the investment to date. However, we do always run stress scenarios at the end of each year, and there are certain stress scenarios in which Elephant would not fully return the investment we've made. And so we have chosen, as part of our conservative approach to our business, to reduce the book value of Elephant on our book from 125 million to 100 million.

Big part of the improvement in combined ratio has come from an improvement in loss ratio, which has been something I've talked about over the last 2 or 3 presentations. And I think you can see here the progress that has been made. I've pulled out Texas because Texas represents 50% of the business we write in the U.S. We are the blue line. And again, you can see a situation where we've made progress, notably in 2017, against a difficult market context where the whole market in the U.S. was going in the wrong direction. And in 2016, hail adversely affected the Texas market. 2017, our 76% was achieved despite Hurricane Harvey, which would have affected us and actually the market as a whole.

So as well as the improvements in loss ratio, other reasons why I'm very positive about Elephant are around the refinement in our strategy. At the beginning of the year, I asked Henry to go to the U.S. full time, along with Alberto Schiavon, one of our U.K. managers, to see if we could sharpen the strategy in the U.S. And the conclusion of the work that they did is that we should focus more on one specific segment, and that's what we've done. One of the ways of looking at the U.S. market is around propensity to stay with you, around loyalty. The U.S. market is very polarized between customers who move in and out of insurance, are very active shoppers but often struggle to maintain a policy throughout the life of that policy and so they cancel and take it up again. In the other extreme, there are multi-car, relatively affluent customers who typically shop much less often but are much more loyal. And historically, Elephant has appealed across-the-board. On the left-hand side, you can see the mix of business that we wrote in Q4 2016, where the red block at the top represents the low propensity to renew and the green block at the bottom is the highest intensity to renew. And as we can see, over the year through a series

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of changes in marketing message, marketing mix and customer proposition, we've moved the mix of business substantially away from the lower-retaining books types of business to the higher-retaining type of business. And our estimate of the impact on that in terms of ultimate retention will be that the book as a whole will have a 17% better retention as a result of this change in mix. Now that's great, but you would expect to pay a price in much higher marketing costs to appeal to the ultimately more valuable customer. So we're very pleased to have combined that switch with an actual improvement in cost per vehicle sale, which was [immediate] cost per vehicle sale which was over $260 and is now under $230. Henry has now returned to the U.K., working part time. Alberto Schiavon has stepped up become -- to become the Elephant CEO.

Over to the comparison business. Andrew was here at the half year, talked more about the business. It's been a good year. We've gone below $10 million in terms of our own loss. The panel continues to evolve. And I've highlighted 2 names. 1 is obvious, Travelers, big band U.S. and globally. Encompass, you might be wondering why am I highlighting Encompass, small brand you've probably never heard of. It is actually the third brand in the Allstate stable. So there's Allstate Esurance; and by far their smallest brand, Encompass, which signed on and is now active in a large number of states, not necessarily material per se but maybe a sign of some progress in terms of persuading 1, at least 1, of the big 4 that it's worth engaging with Compare.

Top right, you can see the year has been a great one in terms of marketing efficiency, with cost per quote halving despite volumes up by 1/4 and the quality of those quotes improving more than translating into buy clicks and ultimately buys. Still, work to be done there. And we are guiding to a loss in 2018 of between $5 million and $15 million for Admiral.

So continuing improvement in Elephant's results, a refinement in the strategy that gives us increased confidence in its long-term health, a reduced loss at Compare and a milestone achieved of marketing breakeven.

Over to Milena to talk about Europe.

Milena Mondini
Chief Executive Officer of Europe Insurance

Hello. Good morning, everybody. I'm here today to talk to you about our insurance operation in Italy, France and Spain; and our price comparison site across Europe. Price comparison site is our major distribution channel nowadays also in Continental Europe, but it was almost inexistent 10 years ago. I will then focus more on ConTe, our Italian and biggest operation, while there are more detail about Admiral Seguros and L’olivier in the appendix.

2017 was a mixed year for price comparison side. It was a year of investment in Confused. We invested in a driver win campaign to position ourselves as the go-to place for drivers. We also invested in other project as car buying and selling online and car financing. We believe that this new strategy will help us to differentiate ourselves. The market is still highly competitive, with more than GBP 110 million of investment of the top 4 players in 1 single year. Profit decreased year-on-year as a consequence of the investments. In the last month of 2017, we started to see some benefit of our investment. And we've noticed a good engagement with the brand, but it will take time for the benefits to fully deploy.

In Continental Europe, we experienced another year of strong growth both in France and in Spain. The starting position is quite different. In Spain, where Rastreator has 70% market share and is leveraging on its dominant position to diversify the business, with particular focus on the financial vertical. This is a bit more mature market compared to France. In France, LeLynx is also l of the 2 top player in the market, but the market is less mature. And there are new entrants that are investing in [TV]. We do believe that this investment will help us, the channel to grow. And it's important to remind that for us it's very important that the market move direct also support of our operation, insurance operation, there.

Moving now to insurance in Italy, France and Spain. 2017, as 2016, was another year of very strong growth. We grew 60% in active policy base and turnover, reaching EUR 309 million revenues in '17 and 854,000 customers. We are consciously investing in growth to reach economy of scale in each country and

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the scale that we believe will help us to deliver material profit in each single business. It is important to notice that we did achieve this growth despite the cycle is not favorable yet, particularly in Spain and Italy where price are expected to increase; at the same time, even more important, reduced losses overall. Losses went, combined, in Europe from EUR 10 million to EUR 5 million, to EUR 2 million in '16 and '17. Main driver of this was good group profit, but I think it's important to mention that Admiral Seguros is not far from reaching sustainable profitability either. And in L’olivier, we are still investing to reach scale, but this investment is not large at all.

In this slide, you can see the key evolution -- the evolution of the key ratio in Europe. The first things you may notice is that loss ratio is in a very good range, while expense ratio is over market average. So why expense ratio is over market average, there is a mix of reason. The most important one is that we have an higher percentage of new business of renewal book. And we don't have the scale yet, particularly in Spain and particularly in France. This is why, for us, reaching a decreasing expense ratio is crucial and is critical. And one of the most notable results, in my opinion, for the year is a strong reduction of 5 points combined in Europe while growing at the same time. We are indeed reaping the benefit of our investment in brand awareness. We are realizing material internal efficiency through more process automation and optimization. And we are reducing the cost per policy in every single country. Reduction of expense ratio was indeed realized in every single country, and we remain positive to continue this trend and in this direction in the future.

Loss ratio combined in Europe has been between 70% and 80% in the last 4 years. We believe that's very good results. It's important to us because being able to transfer our competitive advantage in underwriting and pricing was one of the key assumption for us when we decided to launch internationally. And we think we achieved these results. In 2017 in particular, the loss ratio deteriorated, as you can see, but please remind that this number include reserve releases. And 2016 was a year of extraordinary reserve releases, particularly for ConTe, while the underlying loss ratio is relatively stable. It's also worth to remind that we adopted a more conservative approach in booking in France and Spain as we are already doing in Italy and U.K.

Results for the year was also positively impact by reinsurance contract, in 2017 in particular.

Moving now to ConTe. ConTe had a great year. They had record profit. It was profitable for the fourth year in a row. It broke even on written basis for the first time, while in the past we had to wait a few years to realize the profitability on written basis because we have to wait for the loss ratio, ultimate loss ratio, estimates to improve. We had a record expense ratio with 6 points decrease, and this was mainly driven by internal efficiencies; and this despite the strong growth and despite we are in an adverse part of the cycle with the average premium in the market decreasing and now down 22% compared to 5 years ago. We also went live with a new IT system, Guidewire, that is now supporting the majority of Admiral Group. And ConTe was scored second best place to work in Italy for the second year in a row.

But the most notable results of all is definitely passing the mark of 500,000 customer. What a great way to celebrate the new year, 600 happy colleagues celebrating 500,000 happy customers.

I'd like now to conclude with a comment about Europe in general. Italy, France and Spain are somewhat different but very similar among themselves if compared to U.K. They share similar challenges and somewhat similar opportunity. And we did work in the last 2 years to make sure that we were increasing the synergies and we were sharing more best practice; in summary, trying to make sure that the value delivered by European Union, Continental Europe combined was greater than the sum of the individual country. One of the most notable effort has been investment in technology. We have a company in Spain called EUI general service that support the 3 operations in Europe. But as you may expect, the most important project is preparation to Brexit. We selected Spain as location for a new insurance company that will underwrite business for the -- our operation in Continental Europe from 2019. The project is going well and according to plans. We appreciate that, given the size of European insurance is increasing, there is interest in knowing more about those business, so we'll be very pleased to address this later in the year in a dedicated Investor Day.

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So to wrap up: a year of investment in Confused; very strong growth both on price comparison side and insurance company in Continental Europe; improving results in each single business, in each operation, with reduced combined losses overall; and record profit for ConTe.

And I shall now hand over to David that will talk to us about group strategy. Thank you.

David Stevens
CEO & Director

Thank you, Milena.

One last long-term perspective. We've talked a lot about things that have changed from 25 or 20 or 10 or 15 years ago. One thing hasn't changed, and that's our commitment to making Admiral a place that people enjoy working at. And this is demonstrated in this exhibit. In 2001, the first Sunday Times Best Companies to Work For survey came out, and we came in at #32. We are 1 of only 2 companies that have come in the top rankings of that survey every year thereafter. And the latest survey was particularly gratifying, seeing us voted as the third best big company to work for. And last year, we managed 23rd on the global best companies to work for award, so it's lovely to see that culture being exported internationally.

I'm just going to finish then with a quick restatement of our strategy. It's very simple. It's the same that I described 2 years ago when I first became the CEO. It's to ensure the Admiral remains one of the best insurers in the U.K.; to demonstrate that we can be a great insurer beyond the U.K.; and to develop sources of profit and growth beyond the brand, serving more customers, which we've done in spades in 2017. That's both in car and from new products like van and travel and household. It's about knowing our customers better, which we partly do through product innovation like multicover and telematics. And it's about keeping them longer; and that's through product evolution, the Defaqto 5 star, the improvements in the product quality of the ancillaries and the improvement in the customer service delivery.

Demonstrating that Admiral can be a great insurer beyond the U.K. is around understanding what it is about Admiral that's exportable and making sure that we also adapt to local market conditions. And what's proved to be exportable is talent in risk selection and a low-cost expense culture. Beyond that, we've had to do a lot of adapting. And I think the Elephant positioning towards particular segments in the U.S. market through direct marketing is an important example. Claims handling in Italy is another example, where there's a lot that we've learned over time. And I think we're now ahead of the market on claims handling in the Italian market.

We are focusing on the existing countries in which we have insurance operations. We're not planning to launch into new countries. And we are seeking to accelerate the switch in consumer behavior, which as you saw from Milena's graph is a long-term structural trends towards direct and Price Comparison. We seem to accelerate that in certain markets via our investments in our own price comparison sites. Lastly, in developing sources of growth beyond insurance, again we seek to develop on our strengths, so we're looking for intangible services sold at a distance ideally. We're looking for products sold through price comparison sites ideally. We're looking for products which have a high degree of risk selection as an important success criteria. And we are going to test relevant products in that universe, with the most obvious test being our launch into loans, most recently our expansion from unsecured personal lending into car finance. And that's going to be an important initiative as we go forward.

So thank you for that. Here are your team 10 years ago. And I'm going to open it up for Q&A. I know the question on everyone's lips is how have the four of us managed to avoid the ravages of time so successfully after the last 10 years, but can we keep the questions to the business, please?

But before I take my first question, I'd just like to take this opportunity of thanking Karen Maguire, our Investor Relations Manager, for whom this is the last set of results and who -- and the last road show. Sterling work over the last few years. She's moving on up to be the CFO at Confused. Congratulations, Karen. And thank you for all your help. The queen is dead. Long live the queen.

Marisja is our new Investor Relations Manager, Marisja Kocznur, a very competent person that will -- you'll all, hopefully, get to know over the next couple of years.

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So over to Q&A.

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Question and Answer

David Stevens
CEO & Director

Can we go straight to the back? Sorry, Karen -- no, no. You're in-charge.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

Greig Paterson, KBW. Two numbers themed, please; and an observation. Could you just give us what the -- as you typically do, the December year-on-year rate increases were in U.K. motor including new business and renewal together? And could you just clarify exactly what your retention was on excess of loss in 2017 versus 2018? And also, interested to know what your plans on, what you've been doing in terms of automated and connected vehicles. And finally, just an observation: My view, your business model is very cryptic a financial structure. And by dropping, I -- if I heard correctly, you're going to drop the ultimate disclosure, I think, that makes a cryptic business model even more cryptic. There was a comment about dropping the ultimates...

David Stevens
CEO & Director

Market comparison.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

The market -- all right. Then I take back what I said. It's obviously not a cryptic business model.

David Stevens
CEO & Director

Okay, let me do the 2 easy ones. And I'll hand the price increase over to Cristina also. It's very difficult. On our excess of loss, Page 44 is full detail of the history of our excess of loss. In terms of autonomous vehicles, we invest a lot in staying in touch with what's happening technologically. We are active with Startupbootcamp and Plug and Play. We have one of our senior managers embedded in a tech-orientated private equity fund. We do a lot in cooperation with some of the startups. We also stay close to some of the tests which are going on around the U.K. in terms of autonomous vehicle. So far, we have felt that it is not commercially advantageous to invest beyond our investment in that area. We feel we can follow the developments in that technology adequately from the work that we do elsewhere. Cristina, would you like to comment on pricing?

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes. So prices in the market, according to the ABI, have gone up by 8%. And that includes 2% IPT. We have put prices similar to the market.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

That's December to December...

Cristina Nestares
Chief Executive Officer of UK Insurance

That's December to December.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

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[So 8%].

Cristina Nestares
Chief Executive Officer of UK Insurance

Around -- similar to the market, yes.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

And the new business [indiscernible].

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes.

Unknown Attendee

[indiscernible].

David Stevens
CEO & Director

Yes.

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Thomas Seidl, Bernstein. First question, on home, a great progress. You still run a 20 percentage point higher loss ratios there, though. Is there any reason why it should not reach market average 50%, 55% loss ratio [whilst] increasing diversification and knowledge in data? And secondly, on U.S. price comparisons, you talked about the progress you made. Can you talk about the market there? Are switching rates going up? I think it's about 75% retention levels in the U.S. Are switching rates going up? Are those people who do switch use more price comparison? And how do the competitors of -- compared with Compare?

David Stevens
CEO & Director

So you'll do home, and I'll do U.S.

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes. So our loss ratio in the household book is much higher than the market. Several reasons. First, we are still learning. We have been 4 or 5 years, so we're collecting more data, improving how experience -- or sorry, how we handle our claims. So we expect to improve our loss ratio. The second reason is in the market the retention is very high. So a lot of the competitors have very large renewal books, so we might not be able to get very quickly to the average of the loss ratio in the market. The third reason is, price comparison, it's only 50% of the market. As the share of the price comparison grows, more people will be switching. There will be more comparison in prices, and that would allow us to get to the loss ratio in the market.

David Stevens
CEO & Director

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And sorry. U.S. comparison: Pure true price comparison is tiny, tiny in the U.S. There is a lot of noise. And one of the challenges for Compare and from a [marketing] point of view is there is a lot of noise from people who advertise as if they were comparison operators but sometimes deliver an outcome as simple as a list of people to click through; sometimes collect a couple of pieces of data and then pass you off to someone else, show an indicative estimated price. So the actual pure comparison market is very small but growing fast. And I mean really, really small. In terms of shopping activity, it is a bit higher than it was 2 years ago, but I think you -- we'll have to see whether that's structural or whether it's a response to the fact that prices have been increasing in the U.S. market substantially over the last 2 years in response to the adverse loss experience. That tends to stimulate more shopping in any market.

Arjan Van Veen
UBS Investment Bank, Research Division

Arjan Van Veen, UBS. A couple of questions on the European insurance business, if I may. Firstly, the loss reduced to EUR 2 million, but it was negative EUR 5 million in the first half, plus EUR 3 million in the second half. You mentioned some reserve release out of ConTe, so just curious. Is the underlying trend improving that much? And can we expect that going forward? Or is it a bit of distortion in the second half? And secondly, you mentioned price increases in Italy and France. If we look at ANIA data, I think 2% price increases in this fourth quarter of 2017, a lot of your competitors putting prices up towards the end of last year. So can you give more color of magnitude of price increases, particularly in France, please?

Milena Mondini
Chief Executive Officer of Europe Insurance

Yes. So going to the difference between first half and second half. We do have -- there is still some volatility in the results. And this is driven by reserve release, by the fact that we have some business that are still with a small book. So there is some volatility in loss ratio. I mentioned that one of the reason why -- one of the positive impact on 2017 is there is also some distortion of reinsurance contract with some deferred profitability on 2017 versus previous years. So there is some distortion, and there is some volatility. We did have an interesting reserve release in the second half. This happened also in the past because we tend to have a more deep revision of the results in the year-end, but also I think it's very, very important that you look at the year as combined and you don't extrapolate the trend. And so you look at really the trend year-on-year rather than looking at the difference between second half and first half looking forward. On the price increase, the reality is that in Italy we're suspecting a quite strong price increase in the last actually couple of years. And this has been postponed mainly because good underwriting results. So the increase that we have seen are smaller than we expected and were very concentrated in the very last part of the year. Year-on-year, there was not material price increase. And all the price increase that you may see are only on traditional player. The direct market actually is not [that] at all.

Arjan Van Veen
UBS Investment Bank, Research Division

[indiscernible].

Milena Mondini
Chief Executive Officer of Europe Insurance

France is relatively stable with very, very small price increases; and [this really] claims inflation.

Andrew John Crean
Autonomous Research LLP

It's Andrew Crean, Autonomous. Could I go into a bit more detail on your U.K. motor results? You're signaling, I think, flat pricing for 2018. Could you compare that with what you expect for claims [burn] cost? And then I mean I agree with Greig's point. I find your results now increasingly obscure. The results you're actually reporting this year, I mean, to what degree are they reflecting underwriting years '14, '15, '16, '17? You seem to be now sort of 3 or 4 years behind what's actually going on. So that was the second question. The third question is you say that your times top has got better, but I noticed that you actually

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put on more car policies in the first half than the second half, so should we be looking for an acceleration in the number of car policies on the books in '18 rather than '17?

Geraint Jones
CFO & Director

I mean a comment around the profit and loss account and the recognition of results. The philosophy of our accounting for claims is that we take a cautious approach. And we release reserves into profit when we have a good amount of confidence that there [aren't] going to be releases and that the profits are going to be profits. The business that we were earning in 2017, we are accounting for as a bit roughly breakeven on underwriting. You base it from ancillaries and fees and things like that which gets recognized basically in the year. And reserve release is 21% of premiums and [associate agent], and that comes from the underwriting years that you can see in the appendix. So we show you the loss ratios booked by underwriting year. We show you the accident year best estimates. We tell you how much money we make on other revenue per vehicle. And really I think you can get to how much money we're making. Agreed, that some of the structures, particularly around profit commission, are complex and we're somewhat hampered because the terms are confidential, so we can't tell you what they are. And we try our best.

David Stevens
CEO & Director

In terms of the evolution of prices going forward, do you want to talk to that, Cristina?

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes. So you talk about our prices improvement, but actually the graph we show is more about flat. So at the end of '17 and the end of '16, our times top is the same. In terms of claims evolution during 2018, we think it's going to be a continuation of the benign trends of '17, so that is an increase in accidental damage overall and a continuation of the reduction in the small BI claims. What happens to large claims? I think it's harder to predict. So overall, it's going to be benign, but it's hard to predict very concrete. So we think in this environment prices are going to be flat. They could be a few points up or down, depending on how the claims evolve.

Andrew John Crean
Autonomous Research LLP

Big margin compression?

Cristina Nestares
Chief Executive Officer of UK Insurance

I don't think so, but that's our view at the moment. Having said that, what happens to the government reforms? Do they become concrete? Is it clear they're going to happen in April? And the extent of the reforms, it's going to have a significant impact on the second half of the year. So it's hard to predict exactly what is [going to happen to] prices. Then your question about the growth in '18, I think there are 2 components to growth. One is new business. And the other one is renewals and some of the things that you might be seeing around our improvement in our retention rate.

Dominic Alexander O'Mahony
Exane BNP Paribas, Research Division

Dom O'Mahony from Exane BNP Paribas. 3 questions from me, all on U.K. car. The first is on the Ogden, the GBP 40 million that you put on this year. Is this part of the drag that you flagged this time last year? And is it from PYD, or is it from reinsurance commissions or a combination? The second is you disclosed that the terms for the co-insurance arrangement with Munich Re have changed slightly so that you get the installment income. Could you just remind us of the arrangements for the ancillary income as well there? And also whether actually this is reflecting any broader changes in the terms of the agreement there, recognizing of course that there's a limit to what you can say given the confidentiality. The third is on prudence in the U.K. book. At half year, you said that, while of course you continue to have enormous

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amounts of prudence, you relaxed prudence slightly. And again, you relaxed it in H2. Could you just give us a sense of how much this contributed to your PYD -- sorry, not just your PYD but your accident year loss ratio? And is this a reflection of a new policy? Is this are we expecting sort of a still very prudent but not quite as prudent as before from now on?

David Stevens
CEO & Director

Geraint, do you want to take all three?

Geraint Jones
CFO & Director

I'll give it a go. Ogden, the GBP 40 million hit this year mainly affects profit commission. It is the -- a kind of ongoing drag that we talked about at the 2016 results. Effectively, I think we said GBP 200 million pretax impact, just about; and about GBP 150 million of that, now we've taken. Second was installment income, change in the arrangements. There's been a slight shift where we get all the installment income, but of course, we therefore make less profit and so we get less profit commission. So it's really that's allocating around the lines in the income statement. And there aren't significant changes in any of our reinsurance arrangements really in the course of the year. And the final one is prudence in the reserves: We talked at the half year about bringing the size of the conservatism relatively down. If you go back pre Ogden, we were saying that we would expect to bring the level of conservatism down over time had things gone back to normal times. Ogden obviously disrupted that significantly. And so we increased the size of the margin at the end of '16. We brought that down in the middle of '17 and down very gradually in the second half of '17 as well. Reserve releases for the year were 21% of premiums. It's higher than the long-term average. I think, had we kept the margin broadly the same as the end of the previous year, we'd have been back in that sort of normal range, something of that order.

David Stevens
CEO & Director

And ancillaries in the U.K. are all accrued to us on car. Typically, abroad, they're shared with the reinsurers.

David Bracewell
Redburn (Europe) Limited, Research Division

It's David Bracewell here, Redburn. 2 questions. One, on the ultimate loss ratios in the U.K. And they haven't changed in '13, '14, '15, I think, or '14, '15, '16, but my understanding was the Ogden claim was settling a better rate than the minus 0.75. So I would have expected perhaps, as I came through the numbers, that the [actuals] would have improved the ULRs there. I know you talked about different settling patterns, so maybe a bit more detail there will be useful. And then the second question, just on the new products you mentioned right at the end. I mean, are these new product going to be kind of car-related products? Or actually are you looking to expand into any different types of products unrelated to car going forwards?

David Stevens
CEO & Director

The new products aren't necessarily car related. They will be related to our strengths. If you look at lending, we are doing car lending, but we're also doing lending for other purposes. It -- but wherever we do lending, risk selection and low expense is relevant. And so we feel it's an interesting product. And increasingly, it's across a number of lending products. Maybe I'll do Ogden as well. What you are seeing is some gumming up of the works. It's very difficult both for insurers and lawyers to understand what is an appropriate settlement when there's so and much uncertainty around the actual financial context. And so it is very difficult to -- and that affects the evolution of claims. So they are developing in a different way because fewer of them are actually reaching settlement. It just creates more uncertainty. And in that context, we choose to take a relatively conservative view of how that might unwind.

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Wajahat Rizvi
Deutsche Bank AG, Research Division

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

David Stevens
CEO & Director

Geraint, do you want to do XOL and reserving? And maybe, Cristina, escape of water.

Cristina Nestares
Chief Executive Officer of UK Insurance

Yes.

Geraint Jones
CFO & Director

Just remind me what the excess of loss question was, Waj. I was furiously writing down the first one. Sorry.

Cristina Nestares
Chief Executive Officer of UK Insurance

He asked, I think, just if there was any other change to the terms of the contract. And the answer is no.

Geraint Jones
CFO & Director

Yes, no. The first one was the improvement in the current year loss ratio from half year to full year. I can't remember exactly what the position was at the half year, but full year has gone basically 88 to 85, so 3-point improvement. And I think it's we're not going to break down it into its various components. I will say that we take quite little to -- or very little credit for potentially more favorable large loss elements than would be implied by a minus 0.75% Ogden rate. And so I would say that our projection of where 2017 will end up at this point is a conservative projection.

Cristina Nestares
Chief Executive Officer of UK Insurance

And the final question was around escape of water in household. And we did experience some inflation of this type of claims during 2016 and took action both in claims management and in pricing. And during 2017, escape of water hasn't been a big issue for us.

David Stevens
CEO & Director

Just for [having some] clarity: Although the terms of the XOL haven't changed, the cost has. And for someone with our type of retention, that's between 1% and 1.5% of premium.

Andreas de Groot van Embden
Peel Hunt LLP, Research Division

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Andreas van Embden, Peel Hunt. Just going back to Confused and your strategy there, can you just maybe update in a bit more detail the investments you're making this -- or last year, in 2017; and how you think the profitability of the business will improve in 2018 and '19? It seems to me you're still lagging your competitors in terms of investment. What are you exactly doing to turn that business around?

David Stevens
CEO & Director

Well, the rationale of the strategy on Confused is you've got 4 players which in terms of their offering are relatively undifferentiated. And we are seeking to differentiate Confused going forward as the price comparison site for motorists. So there have been 2 types of investments. One investment has been in product range. So we've developed the first car finance comparison offering in the U.K. We're developing car buying and selling options on Confused. So there's been some investment in product. There's also been an investment in communicating the repositioning towards motorists solely and the driver wins through the James Corden campaign. That has cost us in terms of profitability. In terms of its long-term outcome, it's still uncertain. What we have seen is a better outcome in the second half than the first half. And that's carried through into the first couple of months for Confused, but this is a long-term repositioning and not a short-term issue.

Nicholas Harcourt Johnson
Numis Securities Limited, Research Division

It's Nick Johnson from Numis. Just a question on U.K. car unit growth in terms of customer numbers. I think you previously said that there's still a lot of market share to go for given on -- given your current market share. Could you just comment a bit about the -- perhaps the competitive landscape? Is it getting harder as competitors increase their quote footprint and upgrade pricing models et cetera? Or is Admiral managing to stay ahead of the competition? Could you just give us a feel for that?

David Stevens
CEO & Director

Well, we've said for a number of years that the U.K. market is characterized by a -- increasingly characterized by a small number of, I think, very competent, quoted, focused, normally direct personal lines players. And the market is moving towards those players, of which obviously we're very much one of those players. That will continue to happen, and we have to work in that context. So the focus on remaining one of the best insurers in the U.K. is a reflection of the importance of being able to match the progress that the likes of, well, Hastings Direct line, esure, are making in being better operators than they were 10 years ago. Having said that, to be able to grow the business as we have, 5% for the core car insurance business and much more substantially if you look across the whole portfolio of products, it suggests that we are able to do that competitively and produce a very good return.

Andrew John Crean
Autonomous Research LLP

So it's Andrew Crean again. One of the things which you could do which might be helpful [and I just asked for], the sensitivity to 1 point improvement in the claims ratio which you have in the appendix doesn't reflect how it changes when the terms change. Particularly on the Munich Re contract. If you could give us a proper sensitivity, because this essentially is highly misleading, that would help us, I think, in being able to project the profitability as you improve your underwriting years.

Geraint Jones
CFO & Director

Do you mean give sensitivity as a range of different movements rather than just one either way?

Andrew John Crean
Autonomous Research LLP

Exactly.

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Geraint Jones
CFO & Director

[Yes.]

Andrew John Crean
Autonomous Research LLP

And it shouldn't compromise Munich Re because there's a lot of moving parts in there.

[Audio Gap]

David Stevens
CEO & Director

Thank you, Andrew.

Iain Pearce
Joh. Berenberg, Gossler & Co. KG, Research Division

Iain Pearce from Berenberg. Can I just clarify one thing, whether has actually been any effects on PYD or profit commissions from the fact that Ogden claims hadn't been settling at minus 0.75%? I just think we need some further clarity on that, please.

Geraint Jones
CFO & Director

Is the question have prior year -- has prior year development been affected by the fact that claims aren't settling at minus 0.75%? I think there's -- very little of the impact on our projected ultimate loss ratios have come from the fact that claims haven't been settling at minus 0.75% because the settlement patterns are disrupted. And the very largest of losses aren't settling in the sorts of numbers you'd abnormally expect them to settle at. So there's been some, clearly, because some claims have settled at a rate or an implied rate at least that isn't minus 0.75%. So clearly some of that has bled through into the results, but I think that, as Cristina and David have mentioned, the patterns have been quite disrupted this year, and so I don't think there's a large impact. And we certainty haven't banked a lot of credit for lots of other claims not settling at that rate.

Karen Maguire

Last questions...

David Stevens
CEO & Director

Sure, last questions. [indiscernible] phone? Is there anyone potentially on the phone? Do we have a phone linked in? You'll be last, okay? Thank you.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

Yes. Just some clarity. Excess of loss premium, I wonder if you can just give us the actual number for '15, '16 and '17. I was -- and maybe I wasn't that smart and tried to write down your answer. And second thing is if you can give us sort of an indicative inflation rate in motor. I know you said it was benign, but what sort of rate range happened in 2017? And then you made a comment that you set up an insurance license in Spain. I assume that's right next to Gibraltar so that you can share staff. Or does it indicate a much more committed view to the local Spanish market? I'm just going to say I'm -- one of the views I have is at some point you're going to have to leave Spain. And if you've set up the license, does that indicate that just because it's next to Gibraltar, because of Brexit? Or are you showing a renewed commitment to the Spanish market?

David Stevens
CEO & Director

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I -- Greig, I think you're overreading the entrails. You don't -- I mean -- and you don't choose Madrid because it's close to Gibraltar, but there are a number of very strong reasons around the fact we've got an -- existing relationships with the regulator. It's a nice place to be. And there are regular flights from Cardiff. In terms of the excess of loss, we'll think about it. It's not that material an item in our cost structure, so I wouldn't overly worry about it. We will see whether we're comfortable with further disclosure...

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

Did you want to [unlock] [[indiscernible]? Because [that'll increase all the rate]. You mentioned you want to unlock [indiscernible]...

David Stevens
CEO & Director

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

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

Assuming the retention remains...

David Stevens
CEO & Director

Yes, yes.

Geraint Jones
CFO & Director

What we've shown in the appendix, Greig, is the cost of an '18 program from 10 million at 2.5% of premiums. Our program was slightly -- well, costs slightly less than that. And it's very much at that level. And we also show you the cost of that type of program in the year before, which was 1% of premiums. The year before, your cost brought more [cup].

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

[indiscernible].

Geraint Jones
CFO & Director

Yes. So we paid something less than 2.5% of premiums in 2018.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

[indiscernible].

Claims inflation...

David Stevens
CEO & Director

Sure. Could -- claims inflation. You can see from the numbers we've shown the small BI and the AD. And I'm sure your model is sophisticated enough to incorporate that into historic claims inflation. The challenge is what's going to be the ultimate claims inflation on BI. So it's not as easy to say, look, the actual result in 2017 was X or Y. And it's very hard to also project forward. And the really interesting issue is do those small BI trends continue, flatten off, reverse. So it's going to be very much a "watch the space" as the market evolves.

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Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

In terms of positives...

David Stevens
CEO & Director

Some positives and some -- lots of uncertainties.

Greig N. Paterson
Keefe, Bruyette & Woods Limited, Research Division

It's not indicative of kind of inflation?

[Do you think it's] positive?

David Stevens
CEO & Director

Unlikely. Unlikely that it will be negative inflation. And it -- can I ask if there's anyone on the phones who's interested in asking a question?

Operator

We do have a question from the telephone line from the line of Dhruv Gahlaut from HSBC.

Dhruv Gahlaut
HSBC, Research Division

I have 3 questions. Firstly, could you update on the reinsurance contracts? I'm assuming that must be coming for renewal on 35% -- or 38% of the U.K. motor book. And do you expect any increase there? Secondly, on the investment income side, you still are sitting on almost 50% of your portfolio around cash, money market funds et cetera. Should we expect any changes there? And what's the yield you are getting at this point? And third question, in terms of PPO propensity, could you remind us in terms of have those been adjusted down? And what interest rate do they reflect? Are they still based on the negative 75 (sic) [0.75%], or are they around the 1% mark?

David Stevens
CEO & Director

It's all yours, Geraint. Thank you, Dhruv.

Geraint Jones
CFO & Director

Co-insurer contracts for 2019 will be extended. They've -- I think, are now fully signed, same terms and conditions, same price. So that will roll on into 2019. Second one, I think, was investment return. The asset allocation hasn't changed very much over the course of the year. I wouldn't expect it to change materially in the future. The running yield, I think, is something in the order of 1.4%, 1.3%. And if you'd multiply that by GBP 3 billion of cash, hopefully, you get to our investment income. PPO propensity, we haven't changed that over the course of the year. And obviously nothing is settling as a PPO, as you might expect in this Ogden environment, hence partly the comments earlier on distortion of settlement patterns. But no, we haven't changed the PPO propensity since the end of last year -- or since the end of '16.

Operator

We have no more questions from the telephone lines.

David Stevens
CEO & Director

Okay, lovely.

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Thank you, for all coming. And see you all in 6 months.
Or before.

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