Direct Line Group

Focusing on our customers

2019 Capital Markets Day

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Transcript

Penny James, CEO.
Strategy - Leveraging our customer focus with new technology

Hi, over the next couple of hours, what we're planning to do is describe and demonstrate to you how we expect to achieve all the ambitious goals that we outlined in our announcement last night. So we've got four main presentations followed by a 10-minute break just to grab a coffee. And then Tim's is going to kick off the second session with the financials, and then there'll be a 45-minute or so Q&A. So plenty of time to ask questions. Let me begin with giving you the key messages that I really want you to take away from today. First, Direct Line Group has some incredible strengths from strong brands to rich data to leading claims skills, and they're really hard to replicate and they drive long-term value. Next, first and foremost this is a people business. We really care and we have a passion to serve our customers. And people that really care about people naturally care about customers. Thirdly, we're on a really ambitious transformation journey to take a step change in the technology in this business and to deliver the organisational change to increase our competitiveness. Fourthly, though we're continuing on the journey to improve the quality of the earnings of the Group with a greater proportion coming from the current year due to that improved competitiveness. And finally that we've got a strong balance sheet with further opportunities to improve its effectiveness.

Now I'm going to start by going back to basics for those of you, and those on the filming, who may be less familiar with Direct Line Group. We're a leading general insurance group focused specifically on UK customers. We've got over 15 million policies and last year we wrote around £3.2 billion of premium, making us one of the largest insurers in the UK. The business is split across motor, home, travel, pet, small and medium-size commercial businesses, and we distribute directly through price comparison websites, through partnerships, and through brokers for SME business. But what we're really about, is what individuals need, what they need for their family, their home, for their business. Being UK-focused gives us the ability to be deep specialists in a market that frankly is unlike any other in the world. And the range of products and distribution channels gives us real diversification and scale that most of our UK-focused peers don't have. It lets us pivot as dynamics shift. And all of that supported a track record of delivering good returns on capital while a strong balance sheet gives us flexibility.

For those of you in the room, I'm sure you've felt that we're authentically a values-driven business. We actually have it ingrained in our culture to care, care about customers, care about people, care about the communities around us, care about the planet. And it's this foundation that really defines what we are, and really defines who we are. It's also the key underpin of what makes this a really sustainable business.

So first and foremost, we're a people business. Let me bring that to life.
We've nearly doubled the number of highly-engaged people in this business in the last five years. We're consistently top quartile for our engagement scores, and recently we were absolutely delighted to receive the award as one of the top three big companies to work for in the Sunday Times list. And for a retail business this is really critical because happy people go the extra mile, and that's what delivers the exceptional customer service. As you can see here on this slide, it results in higher net promoter scores.

Mark's is going to talk a little bit more about the connection between customer and net promoter scores a little later. Our engagement scores and our net promoter scores are leading for any industry. But those scores drive real commercial benefits as well. They've helped us attract and retain customers and that's contributed to the million new own-brand policies that we've added in the last five years. It's not really surprising that net promoter scores and retention are heavily correlated. And all of this has enabled us to return £2.4 billion to our shareholders in the last five years.

So that's the brief overview of who we are.

Before I launch into strategy though, I want to give you a high-level summary of where we are on our journey.

Like many data-driven consumer markets, at the moment, ours is digitising fast. And our success is going to be predicated on how we managed to combine our customer focus with really strong technology foundations.

Our journey has three overlapping phases in my mind, and each part of the business is at a slightly different position on that path.

The first phase is being to build the key technology blocks after years of underinvestment. It's characterised by very high investment spend, high-run costs, constrained spend on both organisational change and on the systems that you're being, that are about to be replaced. But that technology is now beginning to land, and although there's still much to do on that, we're turning our minds to the next phase which is business transformation. And we expect this to be characterised by improving margins and growth opportunities. So, during this phase, we expect to materially improve our cost position as we reduce the double-run costs and improve efficiency.

Tim is going to talk some more to that later.

We're increasing the accuracy and the speed of our pricing and underwriting, and Gus is going to give you a little more detail on that. But as a result, it should materially improve our competitiveness. We're going to improve the pace of which the organisation responds to and deploys change, and we're going to continue to improve our customer service further. Mark, Harj, and Kate are going to talk more about customers in a little while.

Now you'll have seen from the new financial targets, we're aiming to improve margins and as a result, significantly improve the contribution from our current year business. Winning in the future is not just about technology. It's about how you partner technology with customer needs and service. And that brings us to the third phase. When we've added the technology and agility to our core strengths of brand, customer service, marketing, I believe we're going to have a real competitive edge and that can deliver growth. Now you all know we're on a journey, and over the next couple of years we're going to take you on that path with us. And during that time, we expect the strong balance sheets and attractive dividends to give strong returns to our shareholders. What I'd now like to do, though, is set out how we aim to deliver a sustainable and thriving business that can deliver those attractive shareholder returns.

Now we're aiming for a triple win, a win for DLG and those invested in its success, our people and our shareholders. A win for the customer by sharing real value with them, and a win for society and the planet because we know that our long-term success is intrinsically linked to the success of the community and the environment around us.

And that's why we've developed five sustainability pillars for our people, our customers, our communities, our planet, and governance to support those strategic objectives. We're really proud to have been ranked number one by Sustainalytics among the 81 P&C companies they rank on ESG factors globally. We've always instinctively been there for our people and our customers and our communities, but now we're consciously making it part of our strategic thinking.

So let me try and bring it to life. So what's our vision, what's our purpose for this company?

Well my vision of the future is a world where insurance is personal, inclusive, and frankly is a force for good. It's my experience over years in this industry that people are really trying to do the right thing. And that the products that we have offer genuine value to customers. But technology and data mean the world is coming where things are much more tailored to the individual, where you can choose how you come to us, where you can choose what kind of service offering you want, where the products and the cover adapt to the changes in your life. And we're to help people carry on with their lives, giving them peace of mind now and in the future. To have worth as a brand, customers need to trust us. Trust that we'll be there when they need us and trust that actually we'll do the right thing by them. Now we aren't perfect and neither is the industry. But actually holding that vision and purpose as a bit of a North Star is a really powerful guide to some of the choices we need to make.

Now as I said to you earlier, we need to change if we're going to realise our potential in the organisation. And so we've got six key strategic objectives which are designed to keep us focused on that. The first three are all about products that are easy to use and available everywhere. Being the best at direct, winning on price comparison sites, extending our reach. The second three are about the underlying skills which are designed to deliver great value and great customer outcomes. Being nimble and cost efficient, having technical edge, empowering great people. Now there's a great deal of potential and detail under each of these so I'm just going to spend a few minutes unpicking each of them for you.

So we'll start with 'best at direct'. The objective is simple, we just want to be the best UK direct insurer. Now we're right at the top already, but there's much more we can do for current and potential customers in an evolving digital space. So data gives us the opportunity to design more personalised and relevant products for people that are really easy to use and that allows us to differentiate products and services, giving us the opportunity to earn and even reward customer loyalty. Now as you'll see later, tech is starting to transform the way customers think and their customer journeys, and that gives us an opportunity to meet a broader set of customer needs and provide the future for future product innovation and service innovation. So what are the key drivers to being successful let alone being the best at direct?

Well, the first thing we going to do is differentiate ourselves. We need strong brand power. Now as you can see here, we have some of the strongest brands in UK financial services. If we know one thing, it's how to build brand value. We've done it with Direct Line. Churchill's recent makeover is all about broadening its brand appeal. And just look at Green Flag. It's achieving double digit growth by going head to head with two of the biggest brands in the UK. But we also need outstanding customer service which starts with outstanding people. And this is no accident. You'll have seen as you wandered around Doncaster. We work hard at this, we take real pride in our culture. We need tremendous propositions which really differentiate us from the market and draw customers to us and we could do this, impart you to our scale, impart you to our vertical integration. We believe that the accident repair centres that we have give's us a real competitive edge here. That's why we've just completed the acquisition of our 21st repair centre in Weybridge.

And there's often alignment between the seemingly opposed goals of shareholder returns and customer experience. Take the promise to mend cars in seven days. It made us nimble, it made us more efficient. It delivered us cost savings, and it gave the customer a great experience.

So Mark in his slot is going to talk a little bit more about that and some other examples. We also need to know what our customers want. We actually spend a lot of time with our customers. Only a fortnight ago, the ExCo spent an evening with a customer focus group and the message was really simple. "Make it insanely easy for us to deal with you," they said. "Earn our trust by doing the right thing by us, "it's not complicated."

So here in Direct, innovation looks like data-led integrated customer journeys supported by trusted brands. And in time, it may overlap with partnerships. If you look at our relationship with Tesla, it uses the Direct Line brand. If you look at our relationship with Starling, that's using Churchill. I believe having deep experience and doing both partnerships and in direct is a real advantage in the future. And remember, intrinsically direct is a value-creating channel. As long as we can earn our customers' trust, we should be able to share that value between us.

So to winning on price comparisons then. So price comparison websites represent close to 80% of new business in motor, and around 70% in home. It's a major route to market and it's likely to remain so for the foreseeable future. Today we're third or fourth on price comparisons by volume, so we're far from bad. But we know there's an opportunity to be much better, and we want to win in this channel. Now I first highlighted to you our ambition around price comparison around 18 months ago. And since then, we've really improved our trading focus by creating what we call our price comparison site hub. It basically consists of dedicated agile teams focused exclusively on delivering outcomes on price comparison. So what are the key drivers of success in price comparison then? Well, Gus is is going to talk in some detail about our strengths and opportunities in relation to pricing and underwriting. So I won't go and repeat them here. But what I will say is I think there's a real opportunity for us to improve the speed of our deployment of pricing, but also to make much better use of both primary and third-party data in enriching our pricing. Now finally, I want to say that actually having brand recognition, strong brands, makes the difference even in price comparison. And we know this because Churchill gets picked from much further down the list than Privilege does because of its strong brand recognition. And then we find its retention is materially higher as well. And that's why we've recreated a new super chill Churchill. You may see him skateboarding across your screens, but what we're really trying to do here is create an emotional connection with a much broader audience than we could do with our much loved but very analog previous Churchill. However the landscape evolves with intermediaries, I think it's pretty clear that some form of price comparison with highly commoditised products is likely going to be there in the future. So the skills that we develop here will be valuable however that space develops. Now our third strategic objective is to extend our reach.

Now, what does that mean? Well, we're building a platform that's efficient and flexible. And we want to operate in a market, and we do operate in a market where many others don't, and we think that means there's real potential to leverage to those new platforms through partnerships and through acquisitions. We're looking for partnerships where marginal costs are low but really appreciate a partner that delivers strong brand and servicing capabilities. Now we know to win in partnerships you need experience of integrating with other people's customer journeys and data, you need robust and scalable technology, you need robust servicing capabilities, but you also need powerful brands that you can use on other people's marketplaces. Well, we can absolutely do this. Just look at what we do with RBS, with Tesla, with Starling. And we know we could do this more quickly and more efficiently on the new systems. But we're also alive to the possibility of inorganic opportunities and their ability to create value because in a commoditised market scale and the ability to administer more business on a marginal basis becomes much more attractive. So Tim's is going to put a bit more colour on that later.

Now before I move off distribution, I just want to pause on NIG. I'm asked by some of you how does it fit in the group? Well, NIG is a great business focused on individuals who are running SMB business and want the advice of brokers. Now having a separate brand does afford us optionality. But a business that's making great returns has built a brand over 125 years and is consistently carrying rate ahead of claims inflation sits pretty comfortably in the portfolio. And commercial is part of the innovation future too. It's recently entered a couple of partnerships with two start-ups in the car sharing space, Drover and You Me Car. Small but preparing the way for a less-ownership driven society. So those are the ways we want to reach our customers, however they choose.

Now let me move on to capabilities and what we need to have in place so that we could ensure an outstanding experience in the future.

So first up, nimble and cost efficient. Well I think it's fair to say as an organisation today we are neither as nimble or as cost efficient as we really want to be, but things are going to change. As you know, we've got ambitious cost reduction targets out there now and Tim's is going to lay those out in a little more detail. And those are the first step on really closing the gap to the leading competitors. And when it comes to being nimble, we already have eight areas of the business that are adopting agile multi-skilled ways of working, and it's allowing them to increase the pace of what they do and fully embed a test and learn culture. Now in order to get the full benefits of all the technology that we're putting in and to realise the potential for the business, we're increasingly going to adopt those agile ways of working across our business. Particularly in the areas that are at the forefront of change. And we'll discuss this a little further, probably at our full-year results. So technical edge then. Well thanks to our vertical integration and a long history in a general insurance market we have real scale advantage and incredible insights. The data, the insights, the skills should help us deliver great customer experiences and products.

Now today, we're in a sales and servicing centre, not a claims centre. But I do want to remind you that we also lead the field in claims management, and we're able to adapt really quickly to changes and claims patterns and trends. Our technical claims areas are simply second to none. Now I spent time recently with John who runs our Glasgow Accident and Repair Centre. And to put it into context, Glasgow mends about 8,500 of the 100,000 cars a year that we repair. And we walked through the technical advancements that they're seeing. Plastic welding, repairing aluminium, recalibrating cars with 168 CPUs on board, installing multimillion-pound paint ovens that actually improve health and safety, improve efficiency, and are better for the environment as well. This is really impressive hardcore tech advancement. And it's also the triple win I was talking about. Good for all the stakeholders and good for the environment at the same time. Or there's the counter fraud and investigations teams that actually look more like an episode of "Hunted" than a traditional insurance company. It's good for customers, it saves us money, and if I give you an example, we've repudiated claims that we estimate to be worth over 100 million in the last year. We have been operating on cases that have meant 325 years of custodial sentences being handed down through the work of our investigations team. But there are more opportunities to digitalise in claims. Meaning we can further harness data capability, we could make the processes more nimble, we can create more cost savings. And again as an example, we have a robotics farm which actually processes ,000 transactions a week, which is the equivalent of about 168 FTEs. It has more capacity and we continue to automate more processes. Furthermore, we aim to use our capital and risk management expertise to explore and execute opportunities available to us to improve returns for shareholders on the capital that we hold.

But finally, the central part of the whole story. It's all about people. People really matter. But you need to give them the right tools and empower them to make them fly. Now we know we're a good place to work. Remember, number three in the Times list. And we know we have a highly engaged highly effective workforce, and we celebrate diversity from dress code to neurodiversity networks, from physical ability to say it as it is. And that's best demonstrated by I think the activity in a mental health space. So we've trained every manager in this organisation on dealing with mental health issues. We have mental health first aiders in every site on every floor. We work with Mind, and 'It can happen' to build awareness amongst employers of what is possible. And as you've heard, we're rolling out the right technology so that we're in a position to really empower our people and encourage an environment that challenges the status quo in delivering for our customers. Because the pace of technological change is altering customer expectations. They're looking for brands now that can innovate quickly, and we'll only be able to do that by empowering and developing the best people. Now we discussed earlier the imperative of being more nimble and that's why we're rolling out agile ways of working. But it's also critical to attracting and retaining the talent you need for a digital age. We really believe that if we're curious and we're innovative and you combine that with our reputation as one of the best companies in the country to work for, that we can really attract the talented workforce we need to win in the future. Now today is all about strategy and potential for the business. But since I've got you locked in this room, I'm going to share a couple of thoughts on the here and now. First, premiums in the motor market have been turning slowly. We've seen them stabilise in Q3, we've seen positive signs that pricing is steadying and stabilising. Our volumes in Q3 quarter on quarter were stable and that trend has continued into October, which is really encouraging. And our long-term expectation of claims inflation remains within our normal 3% to 5% range, albeit towards the top. Now we know that we're good at managing claims costs and as I've told you we believe our accident repair centres give us real edge in this space. And in fact, when I look at claims frequency this year, it looks to be performing really well.

The second point I wanted to make was around the flooding. Now the current flooding, though absolutely devastating for the individuals involved and frankly appropriately prompting some political attention, is at the moment relatively localised. It's very early days for claims notifications but the current indications suggest something in the order of 10 million. Now that reflects that 'Flood Re' absorbs much of the cost and exposure. Now I do recognise there are a number of flood warnings running across the country at the moment, so suffice to say our response teams remain on standby and you can see some of them actually outside the site today just in case things do deteriorate further.

And then finally, I should comment on the FCA pricing review because I know that it's been a concern for many investors while there's uncertainty out there.

Now Kate is going to talk in some detail about how we think about that, but I just want to say that we are fully behind the FCA's review and their aim to find a solution to make this highly competitive market work better for all customers, not just some customers. And ours and the industry's discussions with them have been really constructive. Now I do expect them to make some changes to how the market works, I don't know what they are. And change inevitably creates transitional effects. But that said, we're confident that we can adapt well to whatever the FCA's ultimate remedies are. And Kate is going to give us a little more colour on that later.

Now, you may recall this slide or something similar from our half-year results. It's a very simplistic way of showing all our major business activities and the technology programs we have or are in the process of undertaking around them. You can see, we are transforming virtually every IT platform in this business. And we're right at the peak of that investment. This year's seen us achieve some pretty significant milestones with three major platforms going live.

Darwin that you'll see later, travel that you've already had a look at, and motor are on Privilege. And as you can see on the slide, each program's at a slightly different stage and the delivery of benefits will emerge at different time scales. Now for those of you in the room, we'll show you some of the significant improvements this technology is just beginning to deliver. So pleased in growth and technology performance on Darwin. 1.6 million policies already migrated onto the travel system, and Privilege Motor now live on four price comparison sites. Next year we'll be migrating new business for Direct Line and Churchill Motor, followed by renewals, and after that we'll be tackling the home business. Our expectation is that all of those major IT platforms will be fully up and running by the end of 2021 with regular drops between here and there. Now I'm coming to the end of what I wanted to share with you today, but before I finish I just wanted to say that we do believe there is a really compelling investment case here. So over the next few years, what should you expect from us?

Well we expect to improve the profitability of the business we're writing today, and improve the overall quality of our earnings, and increase investor confidence in the sustainability of the group's earnings and dividend. We expect that the significant investments we've made will improve our relative competitive advantage with the aim of continuing to increase the contribution to operating profits from our current year business from a third in 2018 to a half in 2021. To improve the operating expense ratio to 20% by the end of 2023, and clear progress laid out before that. And to continue to achieve at 93% to 95% core throughout the medium term. So those are the financial underpins for the next few years.

But let me return to those key messages. First, Direct Line Group has a number of incredible strengths from strong brands to rich data to claims skills that are really hard to replicate and do deliver long-term value.

Second, this is a people business that really cares. We've got a passion to serve those customers well.

Third, we're on a really ambitious transformation journey to deliver a step-change in the technology and organisational change to increase the competitiveness of a business.

Fourth, we're continuing on our journey to improve the quality of earnings and do it with a greater proportion coming from current-year business reflecting that improved competitiveness.

And finally, we've got a strong balance sheet with further opportunities to improve its effectiveness.

Now underpinning the strategy today are some deeply embedded and fundamental principles which are central to us winning in the long-term. Our values, you see them on the walls around the buildings and they sit at the very heart of our everyday behaviours. They were created ground-up, well before I arrived, and they represent in full technicolour our identity. Our sustainability pillars, they bring ESG into the very heart of our strategic thinking whether that's our customers, our people, our communities, our planet, or strong governance, they all play central roles in delivering a business in a sustainable way. And finally, our vision of a world where insurance is personal, inclusive, and a force for good. And we'll do this by helping people carry on their lives and giving them peace of mind because that's how we believe this business will thrive in the changing world ahead. Thank you for listening, and I'm now going to pass you over to Mark who's going to tell you all about why serving our customers so well is actually good for this business. Thank you.

Mark Evans, MD Marketing & Digital

Giving customers peace of mind

Thank you, Penny, and good morning, everybody. I'm Mark Evans, MD for Marketing and Digital, and it's my great pleasure this morning to talk to you about our strength in brands and our strive for excellence in our customer focus. In the last 20 years or so, I've worked in a variety of marketing and customer experience roles across a spectrum of sectors. And my guilty secret to you is that back in the day in the foothills of my career when I was working on brands like Mars and Maltesers, I never for once, never for a moment, dreamt of working in insurance. But I guess back then I didn't know what I know today which is that insurance is a really big deal. It really matters, its people's lives and livelihoods. It's their pets, it's their homes, it's their possessions, it's their cars, it's their holidays, and in many ways it's their hopes and dreams. And that's why we exist to give people peace of mind in a complex, turbulent, and uncertain world.

So I've been with the group for eight years, and a key part of my remit is to help us to drive through on our intent, be great for customers, and great at brands. And my objective for this session is that by the end you realise just how good we are in those things. But crucially how it's also inextricably linked to our strategic objectives. In service of being best at direct and winning on price comparison websites, but also goes hand in glove with our cost and expenses agenda. And in the end is in service of helping customers to have peace of mind.

So in terms of the key messages for this section, I want to get across that customers really are at the heart of everything that we do. And I'm going to explain to you the way that we use our customer pillars to do that in a programmatic and commercial way. I'm also going to talk to you with using some examples and with the help of Harj about how we apply those pillars in a way that drives great commercial outcomes. We believe that there is a sweet spot whereby doing the right thing for the customer, we'll deliver a payback. Whether that's because they stay longer, buy more, or in many cases simply doing the easy thing for the customer is also the cheaper thing for us. We see a strong customer commercial win-win.

And then finally, I'm going to talk to our brands and our brand portfolio and very specifically in Direct Line and Churchill how we have the levers to win in direct and price comparison websites simultaneously.

So let's get started and take a quick look at our credentials in the customer space.

The first thing to say before any numbers is that this is not a new conversation for us. We've really been on it since IPO in the last seven or eight years, and in many ways it is a philosophical pursuit of great customer outcomes. That's why 96% of our staff always put themselves in the customers' shoes, so it's much more than just a frontline thing. It really pervades out throughout the whole organisation. And in many ways, that translates to as to why we've had such great performance in complaints, particularly in the last year. We're really proud to have seen a 23% reduction, half one '19 on '18. And of course that's great for customers but it's also great in terms of removing the associated costs. That's why customers give us great scores in our performance. If I look to the bottom left of the chart and on the right-hand side of that, you'll see the scores that customers give us in our feedback surveys on our operational performance in claims and in operations, and you'll see some really strong performances and improvements and Harj will bring that to life in a moment in a bit more detail. And to the left-hand side, you'll see great gains in our NPS scores as Penny has already mentioned, particularly 20% gains in NPS and Direct Line which is where we've put the most focus.

Now let's just hover on that for a second. There's many familiar faces in this room from Bristol where last year I talked about the strong correlation between NPS and retention. To make that vivid, customers who score us 10 out of 10 versus customers who score us nought out of 10 in terms of would I recommend, there's a 10 to 15% retention improvement and the significance of that will not be lost on this room. And that applies across operations and claims and Churchill and Direct Line. It's repeatable that where we provide good outcomes for our customers, we see the payback in terms of retention. And therefore you see, we're really pleased that we've over-indexed versus the market average on Direct Line over the previous years and we continue in that intent.

So I briefly mentioned the pillars. You'll have seen them in the atrium when you came in the building. You'll see them on various lanyards, you'll see them on the walls. And we introduced this awhile back to make sure that we're programmatic in our pursuit. When you saw the bereavement service, that was very much based on empathy and ease. And this is the framework we use to drive the requirements for a proposition. And as I said, it allows us a satnav if you like about what to dial up and dial down. What's important in the moments that matter for some of our critical service experiences. And they're fairly simple in their intent, but what I would say is that there's science that goes behind these. Again, this is modeled, these are the things that most strongly correlate with net promoter score. Reinforcing again that we strive for a win for a customer that's also a win commercially.

So in a moment, I'm going to give you three illustrative examples of how we apply the pillars in a way that does that. But before I do, I'm going to hand over to Harj to talk about how this translates through ‘Interconnect’ and ‘My Customer’, Harj.

Harj Johal, Director of customer operations

Thanks, Mark. As Penny said earlier, I've been very fortunate to be at Direct Line for over 20 years. And I can thoroughly say with honesty that I've enjoyed and I love every job I've done in that time. But if I had to choose one that stands out as my favourite, it would be the first job I did as a consultant on the phones. And the reason was I used to love having the opportunity to talk to customers and make a difference. To deliver peace of mind when dealing with their insurance and the satisfaction I could hear in their voice when I achieved that. And also the satisfaction it gave me to be able to make that difference. And that's something that's stayed with me throughout my career through the operational journey. In 2015 I returned to the role I'm doing now, having stepped out of the sales and service operation for a couple of years. And when I visited the centres then, I was slightly saddened to find things had changed a little and consultants were then dealing with 24-page paper scripts. There was a real fear of achieving regulatory outcomes. The calls seemed to be robotic. I could hear a level of boredom and dissatisfaction coming through on the customer's end, and I didn't get the enthusiasm or sparkle from our consultants either. So it was clear that change was needed, and I needed to make sure that we were on a journey that delivered an outstanding customer culture because that was what was needed to succeed. So I decided that I wanted to bring in something that would really turbo boost the journey we were on. And as Penny said earlier, I needed to provide tools if people were prepared to going ahead and fly. So I reached out to a number of professional training companies to see could we find a way of building a bespoke training package. I met with about five to 10 of them and we identified one who was prepared to work and achieve what we wanted to, and we delivered a piece of work that was called CONNECT.

So CONNECT was a training package that initially went out to 50 people here in Doncaster and they were trained. It was a significant investment because we took the consultants off the phones for a week which is a huge amount of time in any contact centre to achieve for training. We also took their people leaders out for a week prior to the actual consultants going through the training. And this training was really focusing on customers and looking at personalisation, looking at empathy, to try and change the mindset of what people thought about when serving customers. It was clear to be the best we needed to change. And what CONNECT does is it puts the consultant in the shoes of the customer in every scenario. And we believe there are four typical characteristics of customer types. I'm the sort of customer if I ring a contact centre, soon as I hear the price, I'm saying, "Do you want my card number? And they're saying, "I need to go through the terms and conditions...."

“Yeah, but you do want my card number now?.” “Do you?"
"I'll need to go through the final..."
"Just email them to me."

In CONNECT, I'm a competitive driver, that's what I'm classed as. Our staff can recognise that type of customer and know trying to elongate the call and trying to put fluff in the call is only going to de-satisfy that person. There's another customer type which is a logical analyser. Trying to be quick and rush that customer off the phone so you can move onto the next call and end the call, that's the worst thing to do for somebody of that characteristic. That will put doubt in their mind. "What are you not telling me? "Why are you trying to rush me to make a decision? " That's not how I deal with you.

So we've made sure that people understand the characteristic of a customer regardless of brand and are able to flex their type to make sure they do that. The 50 staff was then extended to 3,000 across all my operation. We then extended it to the same number across claims operations, commercial and rescue. We actually condensed it to a half-day training package and trained all our head office staff. So virtually everybody in Direct Line knows what CONNECT's about, and breathes it every day, especially those who serve our customers.

We spent over 20,000 hours training our staff to make sure that we could get the right outcomes, and the response has been absolutely phenomenal.

The staff absolutely loved it and they, there was a 10% increase in the engagement scores alone. We knew it worked, but we needed consistency. So we changed the wording to align to CONNECT when we deal with customers across social media, web chat, or do the same as we embark on our WhatsApp journey. We make sure that customers are getting an easy outcome when dealing with us. We focus on getting things right first time every time. We focus on delivering on our promises. We've just refocused it again and dialled up permissions culture. I want every one of my consultants empowered to do the right thing for the customer in every scenario, particularly those in vulnerable situations. I don't want them hiding behind a process. I want them to deal with the customer as an individual. So the journey and the results have been phenomenal, but I needed to find a way of measuring that. So at the same time, we partnered with an organisation to deliver a customer experience measurement system.

Again, this was one of the, we were one of the first insurers to do this and we delivered My Customer to the operation. And what this basically does is a customer receives an email or a text message within 24 hours of dealing with any of our consultants. That can be when they buy, when they amend a policy, when they call to renew and decide to renew or don't, when they cancel, when they complain, every single touchpoint. The only one we don't is bereavement as he explained earlier. This dashboard is at the heartbeat of how we run our operations, and how we focus on customers. This is the first thing every consultant will open every day when they come to work to see what scores they got for yesterday and what comments customers have left. It's live in all our operations. We've always had a great response rate. We ask four simple questions. Two about the consultant who served you and two about the journey. And we've had a response that leads to over 1.5 million responses in a typical year. That's 500 pieces of feedback for every single consultant. And we do three things with that feedback. We look at it and say, is the customer giving us feedback that this process doesn't work? If it is, it goes to recourse analysis to focus on improving that process. Is it telling us there's waste in our process? If it does, then we look to identify the waste and take that out. And most importantly, it goes to the leaders as a coaching opportunity to improve the consultants to make sure we keep dialling up the level of customer experience we offer.

When I started this journey, 60% of customers roughly were rating us nine or 10 out of 10. Currently that's at 86%, and as I stand here today, we're on track to achieve a record month and set a new best. But I would say that I think we've got the best operations, and I'm really pleased with some of the comments a couple of you gave me of having dealt with some of my consultants compared to some of our competitors and the amazing difference you've had from our brands. I'm delighted that half of you have taken up the option that we've given to listen to calls during the lunch. When you're doing that, please ask the consultant you sit with what are their thoughts about CONNECT? What do they think the last customer they served, what flex type they were, why was that the case? Also ask them to open their My Customer dashboard and show you their results, the verbatim comments the customers have said about them because I think that will bring the life the customer obsession far better than anything I can say to them, thank you.

Mark Evans, MD Marketing & Digital

Thank you, Harj.
So I said I would give you three illustrative examples of how we apply the pillars through into our service propositions. So to do that, I'm going to pick one which has been around for a couple of years. One that we launched earlier this year which we're in the process of scaling, and one which is literally hot off the press. And Penny's already mentioned that I'm going to start with our seven-day proposition which we're really proud of. For each of these, I'll sort of paint a bit of picture of what's the context. So many of you will have had a car crash, and you will know that it really can put your life on hold. You might or might not be injured. Even if you're not, how am I am going to get the kids to school, how am I going to get myself to work, how am I going to lead my normal life? And how long is it going to take before I get it back, and that was the real

pain point that we heard over and over again from our customers. "I just have no idea how long it's going to take. "I need to know so I can plan". So we challenged our processes and we came up with a proposition which was to get the car back to the customer within seven days. And if we don't, we will fine ourselves 10 pounds a day. I'm going to pause briefly to show a video to see how we brought that to life in communication, and then come back and talk to it more.

So this had huge consumer appeal because it really addressed head on, a key pain point. Hence a 9% uplift in quotes and we're delighted that 140,000 of our customers have benefited from this and give us extremely high NPS scores. But the real beauty of this proposition is how it leverages our vertical integration. We have 21 repair centres and the very fact that 50% of our repairs go through them is how we stitched this together, because it's no mean feat. And that's why our competitors still scratch their heads as to how do we actually do this day-by-day.

It also forced us to challenge all of our processes and that took us on the pathway to a position whereby today our costs to repair in our 21 centres is 20% better than the best of our third-party outsource suppliers. So again you can see the win for the customer translates to a win commercially. So we don't use that advert today still, but we still use the messaging and the proposition in much of our communication such is the resonance with consumers.

The second example I'm going to use, Green Flag Phone Fix. We launched earlier this year. Again, if I portray the context it's actually a very vulnerable situation when you break down. You might be alone, in the dark, bad weather, maybe kids in the back and maybe even in a dangerous situation. You really just want to get out of there. Now conventional wisdom is that you would make a phone call and wait 30 to 60 minutes and hopefully somebody would come along and fix it there and then or maybe tow you away. So we said, well, what if we can hack that conventional wisdom? What if we could actually help customers in the appropriate contexts to help themselves? And so we set up a team of vehicle experts and they learned how to fix cars over the phone. And then we started flowing some phone calls through to them and tried to figure out if we could make this work, and actually we could help the customer on their way. And bear in mind we get a very wide section of calls including people who, you know, call it naivety, don't even know how to undo a steering lock. And the really great thing is that we've had some really good success. As I said we're still in the process of scaling it.

We've done over 2,000 of these, and so far of those calls that are triaged through, we have a one in three strike rate. But we're learning every day about which calls can go through and how do we fix them. We just hit 40% for a month and so we can see the potential. And as I said, in the right circumstances this eradicates the conventional wisdom and the cost of a typical call out. The benefit for the customer is immediacy and also no impact on their renewal premium. The benefit for us is we completely obviate the need to go out and visit that customer in the first place.

The final example I'm going to use is Travel Geo-Care. And I said, this is literally hot off the press and comes in association with our new travel platform. Again, the context for customers. When things go wrong abroad, it can be a pretty nasty situation. If you're ill or injured, often you can career to a provider which makes it worse. Malpractice, over-treatment, confusion, just going to the wrong hospital can lead to a whole series of events which really leaves the customer in a bad place. In our platform we have a database of approved suppliers. And this sounds really simple but in the end, this is just literally directing people to a personalised outcome. Where's the place to go to get the very best treatment, and through that, through their mobile phone, through SMS, through email, and so on, we literally guide them to the right place. And of course again the cost of malpractice and over-treatment is huge in the case of health care abroad. And so if we can minimise that, again the win for the customer and again the win commercially. So far we've had just over 6,500 cases where this has been applied, where we can do the right thing for the customer. The other thing is we receive a lot of calls, 260,000 calls for travel. And of course if we can fix things at source, get people on the right way, remove the confusion, give them certainty, then we believe there's call eradication there as well.

So there's three examples, one from a while ago, one from quite recently, one hot off the press of how we apply these pillars in action. How they become the satnav, what's important for the customer, and also where we can save on cost. Hopefully you take away there that the two things are inextricably linked. That's the sweet spot that we consistently strive for. Okay, so I'm going to move on now to talk about our brands. Penny's already highlighted the strength in our brand portfolio, and that gives us the levers and the optionality to meet a broad spectrum of customers' needs. I'm just going to go a little bit deeper on Direct Line and Churchill to talk to how that's going to help us to be best at direct and win on price comparison websites.

But before I do, there's a couple of things to say. I've been around the block in the marketing world, and I can say without doubt that our science that we have within our marketing approach here at Direct Line Group is the best I've seen. But it's not just me saying that. The global head of search at Google says he thinks our approach is one of the best he's seen in the world anywhere. The other thing to say is that we're very robust on econometrics. We have 77 concurrent econometrics models running. That allows us to optimise our brand portfolio spend at a product brand channel level to make sure that we're always driving down our cost of acquisition and maximising our return on investment. So really strong science. But also in conjunction with that I would say also a little bit of magic in the way that we position our brands. In Direct Line it has huge distinctiveness. The fixer positioning becomes a lightning rod for everything that we do, and we've had obviously lots of success in growing that brand and I'm going to talk a little bit more about that and how that drives our pursuits in direct. And in Churchill as Penny says, we've given it a bit of a facelift. It is one of the most loved brands in the country. And here customers know that if they want an insurer that can be trusted and is on their side that we'll be working hard on their behalf.

So let's talk to Direct Line. It really is a power brand. It has incredibly high levels of awareness and consideration and consumers consistently score it as number one in terms of a brand that makes my life easy and deals with my claims efficiently. And that fixer positioning is a lightning rod for our communication, our propositions, our customer service, and so on. So you might be wondering why am I showing you a picture of a boxing fight on a television. Well, I wanted to tell you a little local story that I think helps to bring to life the power of a brand. So the context is that one of our customers who coincidentally happened to be living in Doncaster had their TV stolen. And a few days later, they tweeted in and they said, "Frankly, I'm pretty annoyed. "I'd expected to have my TV back by now, "and the thing is, I wanted to watch a boxing fight "with my mates tonight, what are you going to do about it?" They were actually a little bit more curt than that, but anyway. To cut a very very long story short, you've seen how social media has handled that at the Doncaster site. Our colleague took it upon themselves to log off, drive home, pick up their own TV, and take it to the customer's house, amazing. I think at the time the risk people were a little bit apoplectic, but you know, we'll push it out to the side for the moment. And what's most interesting in the story is he was asked, "Why did you do that?" He said, "Well, what would Winston Wolf do?" And if you really glide around the business, you'll have seen WWWD, What Would Winston Wolf Do? So in that moment, our colleague knew exactly what it was to be a fixer, and you can obviously say we got a very loyal customer and lots of good social media coverage in that regard. But it shows how the fixer positioning really comes to life. But you could say, "So what, who cares? "I mean that's all a nice story but who cares?" Well the reality is that this is a component part of the golden economics around the Direct Line brand. It's probably surprising to know that the average cost of acquisition for the Direct Line brand is more or less exactly the same as the average commission charge for price comparison websites. And yet customers stay longer, buy a bit more. And so the lifetime value is significantly above the lifetime value of a price comparison website customer. So we continue to double down on the fixer positioning and see the benefits of that going forward to help us to continue to win in the direct space.

And finally to Churchill. We've given Churchill a bit of a makeover. As I said, it's one of the most loved brands in the country and that's not just insurance. It's been around for 30 years, and it's been one of the most trusted and respected brands in the market. But in truth, we felt it was getting a little bit dusty so we wanted to give it a bit of a revamp. So I'm going to play you one more video. The key point here is that we really just wanted to get across that we work hard so you don't have to. So the whole experience of insurance can be really easy. What goes underneath is important to emphasise is a bit of a change in strategic direction for the brand, so up until fairly recently we were trying to traverse the direct and the price comparison channels. Spending money on performance marketing and also building the brand. So as of recently, we've said, no, this is our price comparison website brand which has enabled us to reduce our marketing spend to go much more wholeheartedly after developing as a brand and leaving the performance marketing to the side. So interestingly what does this, what can I say? Such is the strength of the brand, and the love for this communication, that for every pound that we've spent we've got more than another pound in free media. Whether that's PR or social media extrapolation, whatever it would be. And the other thing is that not only is this working really well with customers, but also it's opening up new and interesting conversations with price comparison websites who have a new appreciation for the brand. And hopefully that will lead to some good mutual outcomes. So we do have two powerhouse brands that will serve us well in our dual pursuit to win in direct and in price comparison websites. So to close this section, hopefully you'll have taken away that the customer really is at the heart of everything we do, but we go about it in a very programmatic way. And that means that we search for the win-win where a good commercial outcome also drives a great commercial outcome. And finally in our brands, we have the brand portfolio to allow us to win across multiple channels which will serve us well into the future. And around that, hopefully you've understood that this is all in service of our strategic objectives and not least our purpose to help customers to have peace of mind. And now what I want to do is to hand over to Kate to show how that philosophy around the customer flows through into our conduct pricing, thank you for listening.

Kate Syred, MD Household & Partnerships

Doing the right thing

Thank you, Mark. And so yes, I've obviously met everyone already today and I'm going to get to talk to you about the FCA Market Study and how we're thinking about that. But before I do that, I'm actually going to talk you through our own pricing journey and how it's related to customer conduct over the last few years. And it actually started for us around 2013 for two reasons, really.

Our own pricing capability was becoming more sophisticated, particularly around margin pricing optimisation. And that's the part of our price that changes not because of the customers' risk, and Gus is going to talk a bit more about that later in his section. But as that was growing, we realised that we wanted to put constraints around that so that we really could understand and predict the customer outcomes that we were delivering through that capability. And at the same time, we could see what was happening in other industries, particularly at that time in the energy sector where there's a lot of conversation around customer pricing, how that influenced new business customers and back book pricing. And we could see this was going to be a topic that continued to flow through into other industries, and particularly into insurance. So from that time, we created in 2014 our own conduct pricing framework. And that is how we think about and constrain margin pricing for all of our customers across both home and motor. But from that first initial implementation our view of conduct pricing has continued to evolve. We've shared that with the FCA through all the different conversations over the years in respect of pricing. And we used that when we were working with the ABI and the rest of the industry, when the ABI were creating the general principles known as GPAPs, which are how the industry signs up to how we think about pricing practices particularly around vulnerable customers. But obviously in 2018, we had the super complaint to the CMA and that was obviously quite an escalation for the whole industry. And whilst we'd been preparing for this for quite some time, we're not complacent about that, and we went through creating I think over 20 scenarios in the end, thinking about if you were the FCA what would you do, what potential impact could that have on the market, and what would our own response be to that.

And actually we shared that with the FCA as they've been doing their work over the last 18 months. And just to go back to, so where are we in the whole market study process in case you're not memorising where we are each moment of the day, unlike me. So we had the interim report came out on the 4th of October and that gave their initial view of the market and some of their findings. The consultation for that with the industry actually closed last week, and we've been talking both to the ABI and to the FCA directly as part of that consultation. In Q1, the FCA expect to give their final report. That's quite an ambitious timeline but that's where they're heading.

Then they'll have the final set of remedies as part of that report, and there'll be a further consultation and then an implementation period.

So 2020 will be busy. So when you actually look at that interim study, there's some interesting key points for us that we'd want to draw attention to. So I think they key thing is that they completely acknowledge that in both home and motor, the markets themselves are not making super normal profit. So this isn't about a whole market issue. And they also acknowledge there's a huge amount of shopping from customers in these markets, there's also switching, and therefore overall the market appears to be working okay. However, for certain individuals and certainly those who don't shop or particularly don't negotiate, they acknowledge it's not working well for them and they want to make it work for all customers, not just the majority. And then obviously when you look into therefore some of the remedies that they are considering, which we obviously were frantically doing on the 4th of October, we were at least pleased to see that when we've been thinking about our own scenarios they were very much mirrored in the kinds of remedies that the FCA were considering.

So I'm just going to talk you through what we see as some of the key themes, and how we've been thinking about that and what we've been doing.

So the first one, preventing prices increasing for customers who don't switch. Now from this respect, the FCA are looking at remedies that really try and constrain that margin pricing optimisation. Whether that's to potentially banning it altogether, to constraining how much margin you can make from a customer particularly over time, or even to thinking about what factors firms might choose to use or be able to use when they're creating their optimisation. Now this is very much in the area which we've been looking at over the last few years and is the heart of our conduct pricing framework. So effectively what that means is what we do is make sure that we have a very clear position on when you can use margin pricing optimisation in a customers' journey, but more importantly when you have to stop. And in that pricing journey once you stop using margin pricing, you then either put that customer on to inflation only increases, you might freeze the customers' prices, or actually you might choose to discount them.

Now we are very well aware that it's quite subjective where you put your lines in respect of where you choose to do those activities, but we think as a framework it's one that the FCA could absolutely consider as part of their remedies and one that would help them work with the rest of the industry to really be clear about what constraints there are on margin pricing overall. So the second theme we've identified is strengthening product governance. So in this respect, the FCA is talking about remedies which very much makes sure firms have a clear view of what their pricing practices should be, so what their strategy should be for a customer.

And therefore what they consider to be fair prices, and also what governance is there in the firm. You know, who is looking and controlling to make sure that those choices are reasonable. So from our perspective as part of our conduct pricing framework, we absolutely have lines in respect of what's the percentage margin we think is reasonable to achieve for a customer but also a maximum pound amount that we think we could justify. So very much in that space.

That framework in itself and the lines that we're drawing are looked at by the ExCo overall, we talk them through with our board, and we also have an ExCo member who's responsible for customer conduct overall, particularly for pricing, which is me! So for our next theme, being clearer and more transparent. So in this respect, the FCA is looking at remedies that make it much clearer for our customer where are they in their pricing journey, and what options they might have as they go through that journey. Now this is a theme that we completely agree on and is somewhere that we know that we actually want to improve on in the future. And when you look at some of our systems, like best for customer later on today, that's an area where we're really going to have improvements in the way that we can communicate to customers.

Effectively, we want to make sure that a customer is clear at every point in their journey, what offer are they getting, what new business discounts are they receiving, and what are those options they have. And that's where improvements in our documentation going forward will really help us make this even clearer and we're very much supporting this as a remedy with the FCA and the way that they're thinking. Okay, so our fourth remedy is tackling practices that discourage switching. So in this respect, the FCA are looking at anything that could be perceived by customers as reasons or barriers why they shouldn't switch or shop. And particularly if you look into the study itself, this is where they talk a lot in respect of auto renewal as a process in the industry.

Now for us and the way that we're working with the ABI, I think we're all in the same position that we're strongly defending auto renewal as a process that genuinely helps prevent customers from real harm if they find themselves unintentionally uninsured.

Clearly it's a very different outcome for a customer having to cancel a few days later a policy they didn't want to renew versus finding that you've been driving unintentionally uninsured, which is clearly illegal, or you've been on holiday, you come home and find your home is flooded and that your insurance has lapped in the meantime while you're away. So we absolutely are advising the FCA against doing anything that might reduce the take-up of auto renewal or potentially even worse interrupt that renewal journey. Because once a customer is used to auto renewing, anything that might suddenly switch them to a manual renewal process, they're much more likely to miss, and again, have really severe outcomes if they find that they're uninsured.

So we're absolutely lobbying against doing that, but in the same time what we think is appropriate is to make sure there's no way a customer should be financially worse off because they're on auto renewal. And anything or any practices in the industry that might do that we would absolutely discourage against. So therefore that's our main position with the FCA to make sure that the auto renewal should only be a customer benefit. And lastly the theme of helping customers find better deals. So in this respect, the FCA are actually talking about potentially mechanisms that might automatically switch customers whether it's to better deals within an organisation or even across organisations, and again how to make sure customers are really aware and potentially improve information of what other deals are available.

Now from DLG's perspective, we absolutely believe that a customer shouldn't need to switch just to get access to new propositions. So where Mark talked about our seven-day repair proposition, when we launched that, that wasn't just available to new customers who purchased from us, that was available to the whole Direct Line customer base for motor. Similarly within our own product governance, we make sure that we review our terms and conditions, we make sure that they're all up to current standards to make sure that a customer doesn't need to switch a product or a policy to make sure that their product is up to date. So again, we think this is a kind of framework that we're recommending to the FCA that could be forming part of their remedies in this space. So I know that's quite a quick overview of what is a huge topic for the market, but hopefully it gives you some insight into how we're thinking about the study and the things that we've done already. But I think very importantly for us is I genuinely believe that as an organisation that is multi-brand, multi-channel, whatever happens and whatever the FCA require the market to do in terms of change, whilst we will have to adapt we absolutely have the possibility of manoeuvring through that having multiple brands to work with and working through those different channels. But whatever does happen, pricing is always going to be at the heart of how you compete in our industries. And that's where Gus is going to talk through some of the other things that we are evolving at the moment. Thank you.

Gus Park, MD Motor pricing & Underwriting

Using data, scale, skill and insight to deliver value to customers

Thanks, Kate. Hi everyone, my name's Gus Park. I've been with Direct Line Group about eight and a half years now. Most of that time I've been running our motor business but more recently I've taken on responsibility for pricing and underwriting across our personal lines products. And it's pricing and underwriting I'm going to talk about today. And my message is really very simple. We've got some big in-built strengths, we got some real advantage from the scale of our data, the breadth of our data, and our technical expertise. And that has enabled us to deliver very good and stable results, but we have been held back by technology. And once we've released the limitations from that technology and add greater speed, sophistication, and accuracy into our pricing and underwriting, we'll be in an extremely good position and will be difficult to beat.

So let me start with some of those in-built advantages. The scale of the data is the obvious one. We're big, we've been big for quite a long time. There is sufficient data to do very very strong modeling and it's not just about the scale of that data both in policies and in claims but also about the breadth of the data. We're present across multiple product markets, we're present across all relevant channels, and across all major segments of the market, so the scale and the breadth of our data gives us a big head start. But it's only a head start. You have to do something with that data. The other big in-built advantage we have is our operating model and our claims capability.

So both Penny and Mark have talked already about our vertically-integrated model and our accident repair network and also having great control over our claims environment. And interestingly actually if you look back to earlier in the decade when we were separating from RBS. Actually the most biggest first big investment we made was in an e-claims platform. We transformed our claims business. And that left us with some real advantages. We have very good MI, very good control, very good visibility as well as the management of the indemnity. But I'd say also one of the things that really characterises our claims model from start to finish is proactivity. It's a very proactive model. This applies both in the repair network but also in bodily injury claims, and in large bodily injury claims, for example, we're very good at getting cases that could become big in front of the right people early. They put conservative case reserves on them, we can manage them proactively, keep the costs down.

So that has benefits both in terms of the indemnity cost but also from a pricing and underwriting perspective it's got a big benefit in terms of visibility. We can see what's going on. We are not often taken by surprise by things. We see the trends coming, we see them emerging. I'm going to explain a little bit before I go in to bring that to life a bit more how we actually go about pricing. And just to explain the structure of this slide. Like anybody else, we have a risk cost and a margin. So the risk cost is simply the estimated claims cost for each customer and the margin is what we put on top of that.

And then from the left to the right, we think about pricing from an overall perspective, i.e. we have to get the price right on average for all our customers, and then we do pricing at an individual customer level which is where the more sophisticated models come in. So taking these in turn, I'm going to start with the bottom left. And this is really building upon that visibility of claims experience that I was talking about. How do we make sure that we're getting the claims cost right overall. And this is where we're looking at it on an individual peril basis. We're estimating the current claims cost separately for each peril, separately for frequency and severity, multiplying them together to get the burn cost for each peril. But crucially, what we're doing there as well is we're adding inflation. So people often ask me, "Are you pricing for claims inflation?" Well in the risk layer that happens automatically. We put our best view of current inflation into the model and it's automatically added. Now obviously when it comes to the margin, we can vary that up or down. But in the risk layer, claims inflation is added automatically and we would have to actively intervene in the margin layer in order to change that.

Moving on to the bottom right, this is really the meat of risk model. This is individual customer risk selection. And a really simplified view of how this works is that you are taking data from millions of customers, all of the policy data across all of their rating factors, millions of claims, and some external data, and internal data enrichment. You're throwing them all together into a great big model and generating a formula to predict that individual's claims cost. Now the traditional method for doing this is to use generalised linear models or GLMs. There's a lot of talk in the market at the moment about new modeling techniques and we're very much interested in the new modeling techniques and you'll hear a bit more later on from the Darwin team who have introduced new approaches to risk modeling.

I wouldn't want to be too dismissive of GLMs though because I think they will form the basis of pricing for some time to come, they just may be supplemented by other approaches as well. But this is really the competitive battleground. In motor insurance in particular, and when you're selling on price comparison websites in particular, the ability to predict individual claims cost accurately and fast is possibly the most important thing. Now we're going to come on to the margin layer. So the top left is in many ways the simple bit. This is the bit that we need to add to cover our expenses, to generate a return on capital, to deliver a target loss ratio, to deliver a contribution. And so that's really done at a, first of all, an overall portfolio level and then separately by brand, channel, tenure, and so on. But the real sophistication in margin pricing obviously comes at the individual customer level. And this is where in effect what we're doing is we're overlaying another set of formulae onto that individual customer price. And this is built upon a series of separate models. So these models will be predicting at an individual customer level rate of conversion, rate of retention, the propensity to buy add-ons, future retention, and lifetime value, and all of those things. So those things are all fed into a model in order to maximise the trade-off between volume and margin, and then apply it onto the price. That's incidentally the territory that Kate was very much talking about. That's where the interventions that we've made to ensure good customer outcomes come into the model. Just touching briefly on speed. I mentioned technological limitations earlier. I think the way I would characterise where we are at the moment here is that there's no problem with speed on the left-hand side of this slide. The overall portfolio pricing thing we can see the claims trends and we can react to them quickly. So if there's, for example, an external shock like a change in the Ogden discount rate, to pick an example at random, we are able to respond to that within a day. We can make those sorts of changes extremely quickly. It's over the right-hand side where things can take a little bit longer at the moment with the, you can imagine the far more sophisticated processing, modeling, the use of data and that is an area where I think there is considerable potential for us to improve. And that really matters. In this market where risk selection is so critical, you are always at the risk of adverse selection. And if your competitors are improving their risk selection and their risk modeling while you are not, then your own performance will get worse even if you do nothing. So speed and quality are what you need to succeed in this market.

So I'm going to talk a little bit about what we're currently good at, and I'm going to pick three areas. The first of them, as I touched on earlier, is control and visibility of claims trends. And there are dozens of different charts that we look at on a systematic basis to understand what's going on in the claims environment, but I'm going to, I've picked this one because I think it's quite interesting. This, what this is showing, is it's a picture of the development of third-party damage severity, and some of you will know that third-party damage has been an area where there's been quite a lot of inflation in the market recently. Now typical claims development curves look at time along the X axis. This is a little bit different. This is ranking the claims in order of settlement. So what it's trying to do is adjust for the fact that sometimes you get, particularly when there's a lag before a settlement, you get changes in operational process, you get ebbs and flows which distort your patterns. And so anyone who's had the fun of being an actuary will know that sometimes you have to iron out those distortions to understand what's really going on with inflation. So by ranking this in terms of percentage of claims settled what we're trying to do is get at the real inflation, what's really changing year on year and to iron out all of that noise. And what you see is actually quite interesting here. The three lines, the yellow line you can see there is severity for 2017. And then you'll see a pretty big jump into 2018. And then virtually no jump at all into 2019. And what we are pretty clear is going on here is that there is an underlying level of inflation which is steady and relatively high in terms of the long-term average. But more or less in line with that. But then some specific things happened in 2018 to drive it up on a one-off basis. So you'll all remember the lovely hot months, May, June, July in 2018.

There was a spike in accident frequency then, and that in turn put pressure on accident repair networks across the whole market, which in turn led to longer credit hire durations and so on. So severity went up in response to frequency pressure on the market. And that generated a one-off effect in 2018 which generated higher inflation. So I'm using this as just one illustration of how we can look at what's going on in the claims environment in all sorts of different ways to gain real clarity in order then to inform the right decisions from a pricing and underwriting perspective. Because it's very easy either to underreact to emerging data or to overreact to it if it isn't actually a sustainable future source of inflation. Next up, renewal pricing. So we have extremely good levels of customer retention. The numbers you see here are across the home and motor markets. And I think they stand well against any benchmark. There are several reasons for that and one of them Mark has been outlining earlier. Obviously very good customer service and customer experience contributes to good retention. But clearly renewal pricing is also a critical component of it. And this is something that we're pretty good at. Now that's to some extent because we're not so much held back by technology with renewal pricing. You don't have to be fast with renewal pricing. If you've got good data and good people and a smart approach, you can do it really reasonably well on a batch basis. You send out renewals in a batch. So what you can do is price up one group, send it out, test the results, analyse them, hone the algorithm, move onto the next one. So you can very much take a test and learn approach to renewal pricing, which is something we've been able to do very well with some success. And it's a bit of an art and a science at the same time. What you're trying to do is triangulate between three different things. We think about last year's premium, what was the customer paying last year. We think about what price could they get in the market if they went shopping, and most customers do shop. And we think about how much money we're making. What is the margin, what is the estimated risk cost, what's the future lifetime value? And so it's a triangulation between those things, and you need to keep all of them in balance. Otherwise it gets out of line. So that's another area of strength for us at the moment. If we move on to another one, which is a big, been a big area of focus for the last two or three years, it's application fraud.

Now there are two main types of fraud that insurers have to deal with. Penny already touched on some of the big successes we've had in claims fraud. This point is about application fraud which is more about how you price and underwrite. Now what we're showing here is the level of detected fraud. So why is a reduction in that a good thing? It's a good thing because the reason why it's reducing is because we've developed much stronger feedback loops from the policy validation team who identify these fraud cases, and potentially void or cancel the policies, back into our pricing and underwriting. So we're learning the lessons about where the fraud is concentrating, and we are using interventions in pricing and underwriting, whether that's new sources of data, pricing approaches, new underwriting filters, in order to prevent them from coming on to the books in the first place. And that's been extremely successful for us over the last couple of years, and that has several benefits.

First of all, you avoid the cost of handling all of these things. Second typically as you would imagine, fraudulent cases perform badly while they are on the books and you will often lose money on those types of cases. And third, it's actually strategically really important for us because fraudulent cases distort your data. We are building our future risk models off the data that we've got. And so we want that data to be accurate in order for our risk models to be more accurate in future. So we will be gaining pricing advantage in the future by having cleansed our book and removed and prevented this fraud from coming onto the books in the first place. So those are some of the things that we do well. But as I said, we are supplementing these capabilities with some major investments. So you're going to hear a bit more later about our new platform in motor. I'm not going to go through the whole architecture of it. Suffice to say, it is clearly considerably more than just a guide wire implementation. It's not just about the policy centre. And from a pricing and underwriting perspective, the most, the central component is Radar Live. And that is going to give us some considerable benefits.

First of all, much greater speed and accuracy of model build and deployment. Second, it's going to enable to us to have more sophisticated pricing, more interactions, more granularity both in pricing and underwriting. Third, it's going to enable us to integrate more sources of data, more quickly, more easily, more powerfully. And fourth, it's going to increase the speed of deployment of pricing. So just to touch on speed to bring this to life, this is just looking at a high level at the risk modeling process that I was describing earlier, which in many ways is the most complex thing that we do. At the moment, after building the models we then effectively have to rebuild them in an entirely different environment. And that clearly both takes time and also as I'll share in a moment actually slightly reduces the accuracy of the pricing. So that middle section we are compressing into something that will be able to be done in a matter of hours. As well as generating significant reductions in the speed of deployment of these prices. The point about accuracy, what this chart is trying to show is there is an ideal price that our best view of risk shows. So if we could deploy our ideal price into the market with no change at all, then that line would be just like that. Now we will never be able to do that because there are some things we are not allowed to price for, like gender, and there are other things we simply don't know at the point that we're pricing. What the new system will do is remove the lost accuracy that we suffer at the moment by having to implement and rebuild the rates into a less sophisticated model. So after the change, that line, that curve could become, distribution becomes narrower and that will enable us to drive more profitability, better loss ratios, better competitiveness amongst many other changes from the system that will drive improvement. The earlier stage of that modeling process is obviously also a central source of potential competitive advantage and the new platform will enable us to improve in several ways there.

First of all, the ability to integrate more sources of data, external and internal. Second, we will be able to implement new modeling techniques into it and you'll be talking to the Darwin team a bit later on about the modeling techniques they've used. The new platform will enable us to plug in different types of approach. And finally, we will be able to build those models on a more complex and granular basis. So pretty much every stage of our pricing and underwriting process will improve or get faster, more sophisticated, and more accurate. So in summary, we've done well. We've got some real strengths. We're good at this, but our technological investment will enable us to become very considerably better. Thank you very much.

Penny James, CEO

Thanks, Gus. Pretty cool team, huh? I'm just going to put a little bow around it. I'm conscious that we have thrown a lot at you in the last few presentations. So just to try and bring it together. I started by saying what we're trying to build is a business that revolves around the customer, is technology enabled, and is agile enough to flex and adapt in a changing world ahead. What we've tried to draw out through Mark's presentation is we got world-class marketing and brands here. Some of it brand magic, some of it scientifically driven.

And we've built a customer culture that is second to none and right at the heart of what we do. And whether that's Harj explaining how we've got the bereavement team presentation trying to bring it to life for you for real, the tour and the use of dialogue, My Customer, and you can see what people are using on the walls as we went round, Mark talking about the customer pillars, how we kind of navigate the satnav for the system, or Kate talking about the infinite complexities of conduct pricing in this regulatory world. All of that is encapsulates how we think about customer. And then what we've just started to touch on is move on to the check and agility piece. So Gus, how the pricing agility changes as we start to implement our models and actually how the quality, so we'll start to be able to use more of those customer insights and get them right into the heart of pricing as we start to get the new tools. And then remember all those hours ago, the travel team showing you, actually, we have got a system up running, live, "with customers and 1.6 million policies" and life feels pretty different. So more on the kind of tech enablement this afternoon. We're going to take a short break, five to 10 minutes absolute max. And then we're going to ask Tim who's been here for a whole six weeks to just present the financials. So we'll see you in a minute.

So when I asked Tim to join us a few months ago, I omitted to mention to him he'd have to stand up at a Capital Markets Day within six weeks. So go easy on him, guys. But just to sort of set the scene. Tim and I have known each other for a number of years. Absolutely delighted to be working with him for the first time. He's a very experienced CFO. He was a partner at PwC, Deputy CFO at Aviva, he was CFO at a Lloyd's Market PE-backed vehicle called Torus, and most recently was a CFO and Deputy CEO at Royal London. So we're very lucky to have him and I'm delighted that he's here. And I'm going to let him share his thoughts.

Tim Harris, CFO

Delivering our ambitions

Well, thank you, Penny! Good afternoon, everyone. I'm delighted to be here, and I'm looking forward to working with Penny as a member of the board and her executive committee. And I'm excited to be joining a business that I believe has enormous potential. I'm very much looking forward to getting to know you better as I take up my role at Direct Line Group. This afternoon I want to build on Penny's strategic presentation to share with you my insights on what we believe our strategy will do to the numbers in terms of a performance of a business and the capacity of a business to generate sustainable surplus capital that we can use to grow and pay attractive returns to shareholders.

In particular, I will outline the improvement in the quality of the earnings we believe we can deliver. We're on a journey of transformation with the aim of establishing DLG as the most successful business in our chosen markets. To help you understand our progress, we are committed to redoubling our already considerable efforts towards effective communication with all our stakeholders, including you, our investors, and analysts. Before I talk about some specific aspects of our finances, I wanted to some early impressions from my first few weeks. I'm enjoying being here. The group has lots of strengths. Our people, our culture, our track record of innovation. I love our commitment to our customers and our unparalleled brand and marketing assets. But I also see untapped potential to make the business more effective and efficient. Together we're confident and determined we can realise that potential.

Today I want to cover several aspects of the financial condition and performance of the business, including the impressions I formed from my short time with the company and the insights I've gained from my early discussions with shareholders and analysts. Specifically I'd like to cover costs, the changing shape and quality of our earnings, our growth potential, and capital and balance sheet management. First on costs. It's clear to the executive management team and the board that to remain competitive and to realise the promise of our investment in technology, Direct Line needs to become more cost efficient. I want to talk to you about the targets we've set to achieve this objective in the short and medium term. Next, to the progress we're making on moving to current year from prior-year earnings and the profitability of our insurance operations. While I believe the overall operating performance of the business has been strong, historically there's been a heavy reliance on prior development to support overall profitability. I want to talk to you today about how we expect to grow the proportion of our current year earnings and through reaffirmation of our combined ratio targets confirm that we intend to make this transition without a material impact, hence improving the quality and sustainability of our earnings.

Then to growth. To become a compelling investment proposition, Direct Line Group needs to have growth potential as well as be a reliable generator of surplus capital. I want to take the opportunity to offer some observations on growth and share our belief that through our increased competitiveness and through supporting our innovation, we will grow. And last but by no means least, on our capital and balance sheet management. I intend to give you more clarity on our medium-term capital targets and our preferred approach for returning capital to shareholders. I will tackle these issues head on. I'd also like to cover some of the opportunities we believe we have for enhancing our approach to capital management that we will be exploring over the medium term.

I'm going to start today with costs. Cost management is critically important to the sustainable success of a group. The significant investment in technology is justified partly by the opportunity for growth but underpinned by the belief that it will lead to our cost base becoming more competitive, leading to greater sustainability of the business model. Our business model is different to many of our peers and so are the economics. However, our expense ratio that's averaged 23.7% over the last five years is simply too high to be competitive and tends to restrict our commercial and risk management options. Our long-term strategic objective must be to reduce the expense ratio to more competitive levels. And our target is to achieve an expense ratio of 20% by 2023. This is driven by achieving modest growth in our top line with careful cost management through our investment in technology and new ways of working. This includes the impact of increasing depreciation and amortisation charges on our expense base, which are non-cash items. So the positive impact on earnings quality and operational capital generation are even more pronounced. Reducing our expense ratio is of strategic importance but I recognise that you'll want to see our progress towards those savings evidenced in the more immediate future. Of particular relevance to investors is the impact of our costs on operating capital generation which have a pound for pound impact on our surplus capital generation which pays the dividends. I'm going to walk you through our high-level cost save plan on slide four. In 2018, we reported operating expenses of 722 million pounds, of which 78 million pounds related to amortisation and depreciation costs, giving a balance of 644 million pounds. It's this number that we think is of particular importance to shareholders because it most closely follows the expenses we recognise in our solvency capital generation. We're targeting to reduce this figure by 50 million pounds to 590 million pounds by 2021. When you consider the effects of inflation that equates to a reduction of approximately 15% in real terms, which is a substantial reduction. As our technology assets are brought into use over the next two years, we expect the amortisation and depreciation charge, which is non-cash, to increase. After taking into account our actions to reduce costs and the counteracting amortisation and depreciation charges we expect to maintain reported operating expenses of less than 700 million pounds through the period to 2021. Finally, reducing costs requires investment and today we're announcing that we anticipate restructuring charges in 2019 and 2020 totalling 60 million pounds directed at realising operational savings. These restructuring charges are designed to support the expense reductions I've just described. We will provide further details when we report our full-year results in March next year.

Going to turn now to address the sustainability of earnings of the Direct Line Group including the contribution of prior-year earnings to the operating results. This slide shows the split of our operating profits over time between current-year profits and prior-year reserve releases. The Group flagged some time ago that it expected the level of prior-year claims releases to decline over time. The obvious question arises whether current-year earnings could grow to compensate. As you can see here, we're already some way on the journey and the investments we've been making are the lever for pushing on from here. The Group has very conservative reserving practices. Future accounting changes, like the implementation of IFRS 17, will demand that all general insurance companies are more consistent and transparent in their accounting disclosure, showing more clearly what's going on. Under my leadership, we will continue to maintain a strong balance sheet and prudent reserving, so you should expect prior releases to continue to be a significant feature of our operating income. But onto our current year profitability. Our actions are targeting three key areas to improve the profitability of the business we write today. The improving expense ratio I've already discussed. Gus has outlined the improvements our technology investments are providing to pricing and underwriting which aim to improve our underwriting performance. And finally, we see opportunities to grow which I'll come to in a moment. So, to what extent do we shift the dial? All of the things being equal, we would expect the proportion of current-year profits to increase relative to prior-year releases, specifically we anticipate the actions we are taking on costs and pricing and underwriting will mean the contribution of current-year earnings to our total operating profits will increase to at least 50% by 2021, continuing the journey of improving earnings quality. The question then arises whether we can maintain the overall profitability of the business. Our combined ratio target, which includes the overall insurance results, is a good measure of this. And I'm pleased today to reiterate our combined ratio target of 93% to 95%. Another aspect of our current-year earnings is our investment income which of course depends very much on what happens in the wider markets. I hope it's helpful to say that we anticipate investment income in 2020 of close to 2% without an expectation of material gains.

Now I want to turn to growth as a theme, both organic and inorganic. In our core motor and household business, we operate in a competitive industry where the absolute growth of the existing markets is low. So how will we grow? For a more competitive cost structure and the development of our pricing and underwriting capabilities, we believe we can grow profitable market share. We're also building the operating structure to support the innovation that has been constrained in our business. Direct Line for Business is already successfully creating a new direct SME market. Darwin is our reimagined PCW offering, and Penny referred earlier to two new start-ups in the car sharing space, Drover and Me You Car. Small but interesting examples where our innovation and deep industry insights are opening up potential opportunities. And finally, because we have a direct relationship with our customers, we are uniquely placed to broaden our service and propositions. By understanding their needs better than our competitors do we can provide them with compelling reasons to stay with us because we create offers where others don't such as the bereavement service you heard about earlier, or the seven-day car repair proposition. Additionally, we can use our data to develop new products as you saw with our new travel system. I see untapped potential that we can convert into commercial opportunities. Beyond organic opportunities, we are serious about the possibility of inorganic growth where we believe this can create shareholder value. This could include new partnerships, arrangements, or acquisitions. We'll always be thoughtful about inorganic opportunities and their ability to create value. In the commoditised market, scale, and the ability to administer more business on a marginal cost basis is attractive. And so, acquisitions and partnerships could be value creative for Direct Line Group. We keep an active and open mind about such opportunities and we'll apply strict strategic and financial hurdles when making our decisions. These opportunities might be simply about scale, may offer new routes to market for new brands, or enhance our capabilities as a business. While we'll always be disciplined in our approach, we would welcome the opportunity our new systems create to be active in partnerships and M&A.

Now finally, to capital and balance sheet management. Direct Line is fundamentally a simple business from a balance sheet perspective. The operational capital generation of the business plus the investment earnings, net of financing costs and any actions we might take to manage the capital requirements of the business through risk management tools like reinsurance creates capital surplus. This capital surplus is available to meet our capital risk appetite requirements, to pay ordinary dividends, to invest in the future organic growth of the business, to consider inorganic growth, to finance returns to shareholders both through our ordinary dividend and other ways of returning capital like share buybacks and special dividends. Let me begin by talking about our target solvency ratio. I want to be clear and to reaffirm our current capital management policy, the target range of 140% to 180%. While broad, I believe this is a suitable target range for a company like Direct Line with strong finances and optionality. Our obligation as a team is to make sure that the shareholder money we put to use in the business is generating as strong a return as possible. To do this, we need to make sure that all other things being equal, the business is adequately capitalised but not overcapitalised. We can manage the capital used in the business by managing owned funds, the most obvious mechanism being to return money to shareholders through ordinary dividends, share buybacks, or special dividends. The group has maintained capital 10% above the mid-range of its capital range to reflect the economic and political uncertainty. Those circumstances have not changed yet and the board will revisit that position over time. But I will say this. With our strong capital and risk management, in normal circumstances, I do not believe it's necessary for a company like Direct Line Group to consistently hold capital in excess of a midpoint of our target capital range, that is 160%. As Penny said earlier, we're making good progress creating a more efficient and effective insurance business. You have my commitment but if we find we cannot use capital effectively in the business to create shareholder value within reasonable time scales, we will return that capital to shareholders. My predecessors as CFO, one who's in the room, have always been thoughtful and innovative in relation to capital management. As a newly appointed CFO, my focus is to make sure shareholders are adequately rewarded for taking the risks that contribute to our solvency capital requirement or SCR be those market, insurance, or operating risks. Over the medium term, you can expect us to review the way we manage the risk profile of the business through the use of all the tools available to us. We've got opportunities to look at our financing structure, our market risks, and diversification, as well as reinsurance. As you'd expect, it's early days but I will be sure to communicate our plans along the way. Suffice to say, I believe we have significant opportunities to develop our balance sheet management. Now an important quality of Direct Line Group is the strong earnings conversion to and fundability of cash. The capital generation of a group is broadly consistent over time with our IFRS earnings. And as you can see here, our strong earnings and conversion to capital have allowed us to invest substantially to build a sustainable business while distributing very healthy dividends to shareholders. Let me turn now to how we return capital to shareholders. I've already spoken about how we think about our capitalisation.

Beyond that, our first priority will always be to maintain a strong regular dividend to grow in line with the business. Historically the group's chosen mechanism for returning excess capital has been through special dividends. While these have their place and will remain one of the tools available to us in the future, we believe there are circumstances where the ordinary dividend yield is so attractive that share buybacks are the preferable route to reinforce the growth in the dividend per share. We have outlined this framework on this slide and in the stock market announcement we published yesterday. Put simply, with the share price at current levels the board believes that the most appropriate way to return surplus capital over and above the ordinary dividend is through share buybacks, and you can expect this to be our preferred approach. This reflects the confidence of the board in the future of the business. We look forward to keeping you fully informed as our plans develop over coming months. I want to finish by summarising the outlook and targets. On cost, we told you that we aim to reduce our operating expenses before amortisation and depreciation by more than 50 million pounds by 2021 as a step towards achieving a 20% expense ratio by the end of 2023. On investment return, it's difficult to predict exactly where the financial markets will take us in the medium term. We are aiming to get close to a 2% investment income yield with limited or no gains in 2020. On the quality of earnings and despite the investment headwinds, I have told you that through our actions on costs, pricing, and underwriting and growth, we expect our current year operating profits to represent at least 50% of our total operating profits by 2021. At the same time, we are maintaining our target of a combined ratio of 93% to 95%. Overall, we continue to target a return on tangible equity of at least 15%. This will be supported by our capital management actions which I've described. I've explained that I believe a level of capital of 160%, the middle of 140% to 180% target should be sufficient in normal circumstances. And importantly, we have told you the board's current preference for any surplus capital return would be share buybacks rather than special dividends and set out the framework that informs this thinking. Thank you for listening, and with that, I'd like to invite the team back onto the stage and hand over to Andy to open the floor to questions.

Andy Broadfield, Director of IR

Thank you, Tim. Okay, so we're going to go to questions now. I'm just going to ask as a matter of courtesy to keeping your questions to two to start off with, but we'll come back round if anybody gets turned. I know Greg's not here today, so we might manage that. So we'll start on this side of the room if that's okay, and we'll work our way round to this side. So, yes, Johnny, do you want to start first?

[**Johnny Urwin]** Thank you, Johnny Owen, UBS. So firstly, on the restructuring costs, is that to deliver the 2021 target or is that to deliver to operating expense ratio, i.e. have we got more to come? The 160% solvency in normal circumstances, what's normal, it's hard to know these days. (group lightly chuckling) But any clarity there would be great, thank you.

Penny - Do you want to take the first one Tim?

Tim Harris - So I think the answer is both the shorter-term cost targets we've set and the longer-term cost targets. Is there more to come, I'm not aware of anything at the moment but I think you'd expect us to keep our eyes and ears open if there is compelling ways of reducing cost on the back of some investment, we would probably take those choices.

Penny - And 160, and why don't I start, and you take over largely because I've got the history and the, so, you know, where do we start on this keeping a buffer. So last year end we put 10 points consciously aside for political and, you know, economic uncertainty. I think fundamentally we haven't changed our view on that degree of uncertainty at this stage, but I think we'd hope that we get some clarity over the current moves that will let us move that, you know, as we progress through the next few months. Want to?

Tim - No.

Penny - Nothing to add, yeah. -

[Andy] We can move to just, next door to Sammy. Thank you.

[Sammy] Thank you, first question is just on the medium target you have for the operating cost ratio, the 20%. What makes you comfortable that this is competitively sustainable? You know, what sort of benchmarking have you done there. Does this take you to the middle of the pack in the market or to the front of the queue? I mean, if I just look at some very simplistic measures like cost per policy or something like that, I think you would be still quite far behind the leading players on that basis. And then the second question is just on, regarding your comments on inorganic growth. Could you just tell us a little bit more about what sort of limits or what you're thinking in terms of maximum size of deals and what the financial hurdles are that you would apply. Thank you.

Tim - Yep.

Penny - So take the first one?

Tim- Just remind me.

Penny - Is the 20% or, let me start then. So is the 20% competitive and sustainable, and we've done quite a lot of work in the last few months on what our cost structure's like as best as you can tell versus sort of the leading competitives. And we know there is a gap today. I think there are some things about the model that we've got that mean that I wouldn't necessarily expect to go to the lowest common denominator of service and the, you know, and the most commoditised then. If you take anything out of today, it's that we're offering a lot of superior service, a variety of product selection, and actually our whole marketing economics and so on are different to some of those peers. What we think it takes us to is competitive relative to those channels for our bits that are in those channels, if that makes any sense. Obviously, the world's evolving, they're not standing still, we will keep monitoring. And you

Tim - Yeah, I agree. I think it's an awful lot more competitive than an average of 23.7, first thing to note. And you know, we move in, as Penny's described, a very very dynamic market. So, we need to keep it under review, but it's I think a very clear statement of intent.

Penny - Do you want to take the inorganic one?

Tim - Yeah, so that one is maybe more straightforward because you wouldn't expect me to comment too much on specifics. I'm looking to have joined a team which is very active in thinking about the range of possibilities we have, and, you know, I won't talk about specifics of size or particular targets. But I think it's fair to say as I said, an open mind, and a clear intention to explore inorganic opportunities always mindful that we've got to be able to convince ourselves and you that they'll add significant shareholder value.

Penny - I think there's any other one point I'd add to that. For those of us who have looked at a number of options and deals over the last couple of years and have never moved forward with them, we've always had one big inhibitor which is the systems aren't ready, they're not there, it's two years before you can put them on, and we're not really scalable yet. And I think one of the things I take from this is we're kind of almost at the point, if you like, as those systems start rolling out next year where we have a scalable platform. So, we have a piece of kit in the kit bag that makes it more possible than it was two years ago as well.

[Andy] We'll go to Nick.

[Nick Johnson] Hi, Nick Johnson from Numis. Just a question on capital and risk management. You mentioned a couple of times your use of reinsurance. Could you try and give us a feel for what sort of areas you might be looking at, like it's just kind of quite different on specifics. And just maybe also answer whether or not that might include the use of quota share reinsurance for all or part of the business.

Tim - Sure, so I'm very fortunate to have inherited a very capable finance team. Some of whom are here today, Neil and Andy and Humphrey. And they have, you know, been taking a long look at the opportunities. It's not like I've come in with a load of brand-new ideas. What we've got to do is to make sure that we are determined to execute them. There's no doubt that some forms of reinsurance become far more of a real possibility as we get our cost structure under control. So, you know, I think you can see the kind of direction of travel that we're trying to set out here. There's other things as well. And I think on any kind of capital actions, you should judge us by what we deliver, not what we talk about. But you know, we're not taking anything off the cards.

[Andy] Yeah, go to John next.

[John Denham] Thanks, John Dunham, Morgan Stanley. Just coming back to the reinsurance. How far off quota share being a possibility are you. If you execute on your targets as planned by the 2021 or 2023, is that realistic? And then secondly, you mentioned the margin earlier and what was the percentage maximum and maybe I think you said absolute as well. Is it possible to get some clarity there and maybe illustration of the difference between the margin between either new customers or one, two years old and more longer tenured customers, thanks.

Tim - I'm looking to have one reinsurance in my last three jobs, in my last three companies and there's all sorts of different tools available. I think you shouldn't limit yourself to thinking about whole account reinsurances. We need to be thoughtful about our lines of business and so to be sort of prescriptive about where, for example, expense ratio needs to be to facilitate any particular form would be I think a mistake. I'll come back to answer the previous question. We're thoughtful and we're going to be active in exploring all the opportunities.

Kate - In terms of the settings, clearly that's very sensitive information. So, I can't really share that. But I think the point for me is that where we are drawing those lines we think is materially impacting for those customers that potentially could be on the edge of some of those distributions. And the flip side for us is also around new business discounting, in of itself I think philosophically we think that that's, it's a good thing. It offers, you know, a real opportunity to be competitive and gives customers who do shop around some significant benefit when they do move. But that still means that at the moment there is increases year on year for those customers because they are still quite material which is part of obviously the challenge for the FCAs actually, where do you draw those lines? But as long as customers know what journey they're on, we think that's something that we should be able to keep defending.

[Andy] We go up this side, to Ming.

[Ming Zhu] Ming Zhu, Panmure Garden, just two questions. First is on the buyback. Could you please give some sort of timeline when should we expect this buyback to kick in. Is that at the four-year results or at the start of next year, just make my modeling a bit easier, please.

Penny - So do you want the exact day and hour?

Ming Zhu - That would be even better, but second question is on your comment on the current valuation, you know, your based on the current valuation your ordinary dividend yields. That's why you preference on buyback over special. And just on the, you know, what sort of level would you like your valuation or ordinary dividend yields get to, then you will go back consider the special?

Penny - Shall I take this one first and then you can chip in? Look, we haven't called a particular time scale. What we're just calling out is how we're viewing it at the moment. How we view capital, both ourselves and with the board, is kind of a dynamic thing. So, we consider a number of factors, but clearly the valuation is a key one. And so, we'll be mindful of that as we look forward, so I'm not going to give you an answer because it's not a call that the boards already made in terms of timing, and neither have we been prescriptive about what the value trigger point is. We're just very clear where the valuation sits today and what our view would be in this environment.

[Andy] Let's go to Dom.

[Dom O'Mahoney] Thanks, Dom O'Mahoney, Exane BNP Paribas. Two questions, first, Tim, I noticed market risks on your slide 13. The lower rates go, the closer you must get to the point where actually the return on fixed income doesn't cover the incremental capital you need to hold against carrying market risk. Is that a live question for you? And it's, can you give us any sense of actually at what point it's not worth the candle, and actually you de-risk your asset book just as some of your other listed peers have done. The second question, I guess this is for both Gus and Kate. You spoke about non-risk price optimisation, maximising lifetime value and the limits that you've placed around that. This may be a difficult one to answer, but do you think you've been at some competitive disadvantage by putting limits around that versus peers who maybe have extracted more value?

Tim - So shall I kick off with the first question? The answer is yes, it needs to always be an active debate to make sure that the reward we're getting for holding risk assets is sufficient for the risks that we're required to carry in our solvency to internal model. So, the short answer is yes, it is an active debate. Have we made any firm decisions to do anything differently, no. I think we're extraordinarily lucky at Direct Line Group to have an incredibly capable investment management team and they're constantly thinking about these things. So it is something that will continue to be under review.

Kate - And so clearly, I can't know or none of us can know in terms of what our competitors are doing. But I'd be amazed if we were the only people putting constraints around a way we use margin pricing optimisation. But similarly, I don't think we've seen any evidence particularly, certainly not around new business or renewal to suggest that it's acting as a constraint or a competitive disadvantage. But I guess another reason why we are supportive of what's happening with the FCA is the more we can have a level playing field, the more that we can all have some tram lines with which we're all working with, the more confident we can feel that we're all in that space and neither going too far or not enough.

Penny - And that's a cool message to the FCA all over. We'll support wherever they go, actually, because we think we've got the levers and we think it's the right thing to be doing. But what we do need is a clear level playing field, and at the moment it's very grey, kind of who's got to do what.

[Andy] If we can move to Kam, please.

[Kamran Hossain] Hi, it's Kamran Hossain from RBC. Two questions, the first one you've talked about growth which I think is a positive thing to talk about. Capital requirements haven't grown very much if you look at the waterfall charts that you set out. Could you maybe talk about expectation for what SCR growth might look like over the coming years? Obviously got a good plan out to 2023. And my second question is just on the expense ratio and the path down to 20% by 2023. By the looks of it, the ratio's going to remain relatively stable in the next couple of years, out to 2021. So, what's the, you know, how do we get from '21 and it being relatively stable to '20. Is it going to drop off in the last year, or, you know, should it be kind of a, should we go midway between the two points, thank you.

Penny - Do you want to take the second one, and then I'll take the first one

Tim - The trend and the expense ratio. Well, this is why we've given you a combination of kind of medium term and shorter-term guidance. You've got a number of things going on. We'll be able to talk more about specifically what we are when we come back in March. But a lot of the benefit, especially some of the benefits of a technology investment tend to kick in in the later years that we're talking about, and that's what you see having a pretty dramatic effect at that stage. So, you know, we will talk more about them. There's some good reasons you'll appreciate why we're a little bit careful about that as they just kind of crystallise. But it tends to be a little bit backend loaded around the expense ratio because of the cost benefit coming through on the technology. But that's why we've given you some, if you like, shorter term guidance so you can sort of see that direction of travel.

Penny - And let me try the SCR question. So SCR's been coming down over time because of this transfer that's been happening in the balance sheet where we put the reinsurance through in 2014, which means that we don't have to hold as much capital against reserves as we did. And as you've seen, the prior development ticking down, you've seen the SCR ticking down as well. We're still in that transition period. We're not through that yet. But you're right, eventually if we see some growth then that will start to reverse, and the SCR will pick up a bit. Don't think we're quite at that point yet. I think the other thing I'd say is our plans in the short to middle term. We are a, we're a mature market and whilst we see potential for growth, we're not, I don't think we're really expecting it to, you know, fundamentally take off in the next year or two.

[Ivan Bokhmat] Hi, it's Ivan Bokhmat from Barclays. I've got two questions. So the first one would be on the organic capital generation. I think in your statement, you're calling about 100 million higher number. And so I'm just looking back at the, what you've had over the past couple of years, between four to 500 million organic capital per annum. Should we think that in two years' time this number should just increase towards 600 therefore, by 100 mill? And the second question is just on the motor market. The statements that you gave out for third quarter suggested that you still see claims inflation between three to five, and you essentially, your rates are flat. I'm not quite sure how to understand that with the statements that you are pricing in line with claims inflation. Could you help me understand that please?

Penny - Do you want to take this one?

Tim- So shall I talk about the organic capital generation first? I don't think you should make that extrapolation. There's a number of moving parts, but what we've tried to be is helpful in understanding two of them. One is for cash impact of your operating expenses, and the other is the statement of what I suspect is something you knew already which is that as the cash spent on the major pieces of transformational change reduce over time, that clearly has an impact on the drain that that has on operating capital generation. So I'm not going to give any guidance specifically on the absolute levels of capital generation. That wouldn't be appropriate to do so, but we have tried to help on those two specific items.

Penny - And motor, shall I start to sort of clarify what I said, and then Gus I'm sure will give lots of colour. And so what are we saying, we're saying that our long-term view of claims inflation's still in the three to five range towards the top of that for motor. We're saying we're putting rate through, and I think it was pretty clear from Gus's presentation, we put the rate through the models. What was happening I think in the early part of the year was we were seeing volumes shrink as a result of that. Not a lot but a bit, and certainly was harder work. In Q3 and into Q4, what we're seeing is volumes stabilising as that rate grows through. And I think the combination of that and some external data points would suggest that's because the market as well is starting to price through. And the only other point I got is we only have to be our claims inflation, we don't have to be everybody else's claims inflation.

Gus - Yeah, that's right, so the, yeah, we have been rating for claims inflation. The year on year view is, from a market perspective, is starting to tilt to a more positive picture and it feels like the market environment is undoubtedly improving. So we have been putting the rate through. There are some changes in MICs year on year, which may make that a less clean comparison. But fundamentally, we have been rating for inflation.

[Andy] So go to Andreas.

[Andreas van Embden] Thank you, Andreas van Embden at Peel Hunt. I've got a question about your pricing model. I just want to come back to what the FCAs is suggesting in terms of remedies, and one of them is a discouraging using lifetime value, and you know, predictive conversion in your pricing models. If that goes through, and those rating factors are taken out, pricing models in the industry, how disruptive would that be for you, particularly for the direct channel. And secondly in your pricing agility, as you put your new systems through and particularly Radar Live, would you consider doing intraday pricing, thank you.

Penny - Do you want to take the first one, Kate?

Kate - Yeah, I mean, I think the trouble is it depends really on the specifics of what the FCA might do. So clearly any constraints that they put around margin pricing at least in the short term would mean you'd need to think about things differently and rebalance. But that could be new different types of propositions, how you think about margin versus your risk cost, and different ways of thinking about other aspects of a customer journey. Which I think again is why it's quite complicated for the FCA when you think about trying to put those constraints around pricing. So almost certainly if something radical does happen, we will need to think about how we rebalance, but you'll think about using all those other tools for our customer to try and outweigh that as well as in how you flex between the different channels and the different products.

Gus- Yeah, and then it's far from clear that they would intervene to stop insurers pricing full kind of predicting conversion or lifetime value. I think the focus has been far more on the renewal pricing journey. On your question about real intraday pricing. Potentially yes, I think what I was trying to articulate earlier was that we're on a journey where there are different levels of speed involved in different parts of the process, and possibly the biggest value driver is significantly speeding up the processes that currently happen on a much longer time horizon. The ability to trade into intraday is certainly something that we would consider adding but I wouldn't want to overstate the importance of that relative to some of the other improvements that we're making.

[Andy] There's James Shook at the back.

[James] James Shook from Citi. So my two questions, firstly Gus, you put up a slide showing the retention over time, it was motor and home. I know you did give data on that in the annual report as well, but the retention's gone down since 2015. A lot of what we heard is about net promoter scores getting better with customer servicing. How come we can't actually see that through improved retention as yet, and if you're able to comment on price elasticity I'd be interested to know how that's changed over time as well. So when you change your rates relative to the market, what impact that has on your customer acquisition. Secondly, perhaps a little bit of a mean question. But you started amortising the digital spend. It's about a 50 million uptick in amortisation across 20 years, so that's about a billion spend. If I run the expense reduction to 2021, '23, it looks like you got net earned premium growth of about 4% or so. Keeping combined ratio flat over that period, '93 to '95, is that the scale of the ambition here with all this new digital technology? I just would have expected to see something a little bit more, thank you.

Gus - So shall I take the retention one first.

Penny - You take the first one and then we'll have a go at the second one.

Gus - And the pricing one. The first point to make is that I don't think there's any material change in retention performance. That's a blended view across home and motor. And what we were illustrating there was the very high levels of retention, not necessarily the change in retention over that period. Which frankly I would classify as around the margins. You have slightly different trading conditions at different times. You're always trying to optimise margin and volume. And so I think the real point we're trying to make there is that the overall level of performance is exceptionally strong, a retention rate of over 80% is terrific.

On elasticity, obviously elasticity is something that we study all the time and clearly it varies very considerably across brands, channels, tenures, and so on. I wouldn't necessarily say that it has changed dramatically over the last few years. From a retention perspective though, clearly there is a high proportion of customers who do shop, there are certain interventions in the market that the FCA has already made which I think have been pretty effective. For example, making insurers put last year's premium on a renewal document in order to enable customers to make a cleaner comparison with last year's price. I think that's been a very successful and effective intervention that we fully support. Whether it's significantly changed the level of elasticity, I wouldn't necessarily be able to say. But it feels like it's been a very effective thing from a customer perspective.

Penny - Growth, look, what do we plan for in our base plans? We really plan, I think we've said this to you before, for claims inflation to go through premiums, so a rational market, a moderate, very moderate IFP growth underneath that. So we're growing, but only moderately, which kind of tallies with what you were saying. Do I think we can do that, do more from that, more than that? Actually, over time I believe in the platform we're building. I believe it's got real potential. Would I want to bank that in my underlying planning, capital, and everything else, assumptions right at this point? No, I'd rather deliver it and, you know, and see how it goes.

[Andy] Go to Abid.

Abid Hussain - Hi, it's Abid Hussain from Credit Suisse. Just two questions, please. Firstly in your bid to become more competitive are you willing to reduce your reserve margins going forward and indeed is that baked into your assumptions going forward? And secondly, you're looking to increase the contribution from the current year items. The flip side of that is that you will have been more geared towards the pricing cycles. Is that a concern at all?

Penny - I think you should take one, now we've announced

Tim - Yes, absolutely. No, the reserving practice that we're adopting is consistently throughout the period we're talking about.

Penny - And are we more geared to, and look, I think there's a reality of what's going on as you shape the balance sheet that, that it, you know, our focus is on what gets the best capital, you know, capital returns for shareholders. It doesn't make sense relative to some of the big reinsurers who got cap books for us to hold that big heavy weight sort of end of the liability book, so, of the sort of, of the motor long-term stuff. So that's why we now reinsure that out. And that working of that, working of that, is that over time that tail of that book will get shorter and shorter and it will be a much more damage-based book than a long-term, you know, book. And that's just an outworking. Does that make us more price, you know, price sensitive? Well, it means that it's a more immediate book, I guess, to that extent. We've still got quite a significant balance sheet underneath so we're only talking in terms of 50/50 at this point. So we're not completely moving to one end of the scale. But it is an outworking.

[Andy] Go to Oliver.

[Oliver Steele] Oliver Steele, Deutsche Bank. First off, I mean I'm, I'm quite surprised that you're going to get to 50/50 in fact between current profitability versus reserve releases. Is there any change of pattern in the decline of reserve releases in this plan? And that's question one. Second question is you've teased us a bit on inorganic opportunities but not really given any extra detail around it at all. Do you envisage increased equity or increased debt, or can this come out of the build up of capital organically?

Tim - So let me take those. In terms of change of pattern, no particular change of pattern other than the natural changes of pattern you tend to get because

Penny - It's mixed.

Tim - You know, every year

Penny - Yep.

Tim - Is a bit different, really, the mixed changes, as Penny says, and so no deliberate engineering of a pattern if that makes sense. In terms of inorganic, well, I suppose the trouble with these things, it always does feel like a bit of a tease because we can't talk (chuckles) specifically about the kind of things we're looking at. When we think about those opportunities, you have to think about financing, clearly. But I don't want to get too drawn into that conversation today. What we're trying to do is to say that as our technology comes online, and our unit cost reduces, those kinds of opportunities become real for Direct Line. And that's an important strategic development.

[Andy] We come down to Andy in the row.

[Andy Sinclair] Thanks, it's Andy Sinclair from Bank of America. Two for me as well, please. So firstly, you mentioned about 20 scenarios that you've looked at for the FCA.

Penny - More!

Andy Sinclair - And more than 20 scenarios that you've looked at on the possible FCA actions. I realise you'll be limited in what you say, but I just wonder if you can give us any colour even at a high level what that could mean for earnings, pricing, volumes, anything at all. And secondly just following on from Ollie's question, just on debt. I just wonder if you could tell us about how much debt issuance capacity you think you have at the moment, and if you would look to hold back anymore cash for M&E, thanks.

Penny - Do you, I suspect it's a short answer for you!

Kate - Yeah, well I say, obviously to, no, I can't share specifically but what we were really doing is we were trying to imagine for these sorts of interventions what almost would be the mechanics of the things that you would do. What would you consider, how would you be, just as I said before, would be thinking about how you'd change your new business types of propositions, how you'd be using the different brands. So, it was more in that respect, although we try to put some financials around it obviously as well. It was more the game-playing in terms of, well, what would you, what would you do, how would you act and react into a market that had new dynamics. So that's why for us I think, and you've said as well before previously, Penny, almost certainly if there was some form of intervention, there will be a transition period as you start to recalibrate how you trade in that market. But it's a way that you're recalibrating and then trading differently as opposed to those kind of more material movements.

Penny - So if you think about it from the FCA's perspective, they're trying to work out what moves that you can make and how a market, an incredibly complex market, is going to react to that. So whether or not it gets the outcomes they're looking for. So one of the reasons we did all that scenario work is really about trying to help educate them on the kinds of things that we might consider, and we hope that other players have done the same thing so that in totality, they can kind of see what levers will be pulled. And therefore if they do something over here, that it'll get the effect that they want. Not three other effects that nobody had actually, you know, mentioned to them in passing. That's the reason for the 22 scenarios and that's the reason for, you know, them spending time with it on us. I think it was 22, but I might be wrong.

Kate - I think it was.

Penny - Something like that. Our debt capacity is somewhere around, I can't remember the exact number, somewhere around 300 million if you look at the solvency tiering structures. So that's what we keep. We've always kept it as sort of a contingency bucket, if you like, for need in whatever those circumstances may arise. But that's the current capacity.

[Andy] Let's go to Ben.

[Ben Cohen] Thanks very much, Ben Cohen at Investec. I just wanted to ask, to ask two things. Firstly, do you think at the moment that you're gaining market share in motor and home. And could you help us maybe quantify with the new systems how much that will actually sort of help your ability to take market share, presumably next year. And second, just coming back on M&A. I take the point in terms of partnerships you'll be more efficient, but strategically when you're looking at things outside of partnerships where do you feel that you don't have the brand and the capability and the volumes that you might need to, you know, essentially go to a third party for, thank you.

Penny - I'll take the second one, do you want to take the first one?

Gus - Yeah, market share, we can start with that.
So I wouldn't say that the current increases in market share are particularly material. We are trading slightly more positively, volume is growing a little bit but not to the extent that there's a material change in market share. Looking forward in terms of the capability that the new platform will give us, the idea about the new platform is first of all from a pricing perspective that it should enable us to get a better balance between margin and volume. We can choose at any point in which way we trade that. But one way of doing it is to take all of the benefit into the loss ratio, or alternatively you could trade that into volume. I'm not going to commit to one, (chuckles) one or the other at the moment. I think a market share based strategy for all sorts of reasons that we've consistently talked about over the years is not necessarily the smartest thing to hang your hat on, hence the focus on currently a profitability as being ultimately the thing that's the major guide. But then there are things that the new platform will enable us to do, to enable more diversification, more product development, more growth, and all of that sort of thing which over the medium to longer term should support growth in a different type of way.

Penny - Then on Kate?

Kate - It's a very similar position for home. We're fairly moderate from a known brands perspective. But it's all, for us it's the same ability to basically push harder across those channels, particularly PCW's as we've discussed, and also how we think about our footprint for home going forward. So it's being able to expand further using the new capability, which I'm most excited about.

Penny - I'm going to attempt to do the M&A one because I'm not sure whether I quite got the question. But what do I think the difference is. So if I look at partnerships today, I've reeled off what all our strengths are and what they're running at. I think new technology just makes it a lot easier to put things on to the system and actually adapt them for a partner. So if I look at the VW example, it took us on a four or five months, and, you know, it cost in the millions, you know, low millions. It'll be weeks and hundreds of thousands in a, on the new model. So the ability to stand up stuff quicker and more flexibly is completely different. And then if you kind of roll that over to an M&A type world. If I'm, you know, look at an M&A deal two years ago, I'm trying to decide whether or not I'm going to build something on an old system and then reconvert and migrate it across to a new system in two years' time, or whether I defer all the benefits out for, you know, a couple of years until I know I've got a new system live. And by the time you've done that in a competitive, you know, pitch process, you've got, you're carrying such a hindrance you can't really, you know, you can't really be effective for the other side. And what we're really saying is that, that we feel as though, well, as and when we get live on these systems, we're just much more flexible. And then it becomes about pure economics and whether you really want it, rather than trying to contend with the system on the way.

[Andy] Go to Andrew.

[Andrew Crean] Hello, it's Andrew Queen. Can I ask a question in two areas? First one's on the surplus capital. Are you outside your range now? And I know the board took the view that it was terribly worried about Brexit, so it held back all the dough. In fact spreads have been coming in ever since they said that. If we get a decent outcome on December the 12th, would that dispel the board's terror of political and economic circumstances and allow a launch of a buyback this year on the 13th, is the date, actually. (audience laughing) So, to be specific. The second question.

[Penny] You're not allowed to say that.

Andrew Crean - Doing, doing a, doing quota share reinsurance at Admiral seems to have been a no-brainer for years for you to do it. Is it that you haven't been able to do it because you couldn't find reinsurers who would follow along and is it in the future likely to be tied to acquisitions, because it's clearly a very powerful acquisition currency if you were to do it at the same time.

Penny - How can I resist taking the first question myself. Yeah, I'm not sure that's quite how the board would characterise themselves. Do feel free to talk to Danuta over lunch. Where are we, you know, why do we hold it back. Primarily because we're credit rate sensitive. And I see the benign credit markets, but it's not my job. The credit markets are weighing a percentage of likelihoods. My job is to make sure that we're okay through shock events, and the capital models do not do, that's not what they're about. They're not about gearing up to binary events. And that's why we held the dough back, as you so beautifully put it. It's quite specific, it's very clear amount. Do I think there are outcomes that could happen over the coming months that would change our view of that likelihood and risk, absolutely. Have we decided what we will do on any day of this year or next year, no. We'll do that as those factors emerge. So I think that's kind of Brexit, dough, 160, 170.

Andrew Crean - Are you, are you outside now?

Penny - Sorry, yeah, we're outside the range because we were 180. We're right at the top of the range at half-year. We're not, the difference I would say is we're not, we haven't consciously chosen to be outside the range. So the only decision point we have made is that 10 points, and our view on the 10 points has not materially changed. At half-year, we did what we always do. We said the circumstances aren't changed and we paid, you know, a third of the ordinary dividend as is our usual policy, rather than revisiting full surplus returns. So you're absolutely right. As we sit right now, we'd be outside the range. And there is absolutely no board decision to stay there. So we would expect that to move back in at the point that we move the thing. The question is whether it comes in below 170% because we are more comfortable about that risk having evaporated, clear? And then there was one about quota shares and have, so is there appetite, yes. So do we talk to reinsurers, yes. Have they told us they won't deal with us, no. They're very happy to deal with us and keen to. The reality is that with the expense ratio as it is and has been, we don't think there's enough gearing in it to get it going. Is it an option for us, yes, as we move forward and get those economics moving better. And is it one of a number of financing options in M&A scenarios, absolutely. Reinsurance would be one of those.

[Andrew] - Just where, it's not the expense ratio, it's the combined ratio. You said you're going to stay within 93 and 95. So that's not changed.

[Andy] And the question was it's not an expense ratio, it's a combined ratio, question.

Penny - Yeah, well, you're right except for you're writing on business. Remember our 93 to 95 is a reflection of our overall book of business. What we do 93 to 95 for is to guide you as to what our ability to move between the prior year and current year and control that overall process. So what reinsurers will be looking at are what are you writing today, how effective is that, and can you get, you know, and does that work for both parties. And what we've always said is we believe we need to, and we believe our loss ratio's completely fine, we believe our expense ratio needs to tighten to really get that working for them.

[Andy] - Charlie.

[Charlie Beeching] Hi, it's Charlie Beeching for KBW. Within motor, are you continuing to see the MICs shift that you were seeing at the half-year? So it's just lower average premiums. And also it's in three and a half points off the expense ratio that you're guiding to, but obviously keeping the combined ratio within that range. Are you saying, or what, the delta here, what within that is the prior year and you're saying that you were going to shift your target loss ratio in order to spur on some growth.

Penny - Do you want to take the first one?

Gus - So the motor one, nothing really to update on since the half year. I don't, there hasn't been a material shift since then. But I think on a year on year comparison there would still be some change in risk MICs but nothing too material in the third quarter.

Penny - And Tim?

Tim - So not saying anything specific about what we're going to do in terms of future pricing and growth. What we've tried to do is provide enough of a package that will help seeing where we're going in the modeling.

[Andy] Another question down here from Abid.

Abid Hussain - Just a follow-up question. You're confident about the expense ratio coming down, confident about your loss ratios. We already knew that the PYD was coming down. So why haven't you guided to a lower combined ratio target?

Penny - Not quite sure I follow that. So why are we guiding to a combined ratio target?

Abid - Why, so why have it between the 93% to 95%. Why isn't that nudged down?

Penny - So what we're trying to do with the 93 to 95, and follow-up, Tim, if you feel any differently, is show you the path through the PYD coming down and our ability to improve our margins through not just expense ratio but also the pricing and underwriting work as well over a period of years. So that's the reason for having that there. I'm not sure that quite answers the question, but.

Tim - Yeah, I think so. I mean, I think you can almost reference the previous answer. We're not trying to completely box ourselves in commercially with what we might do in terms of

Penny - Yeah.

Tim - The business and our propensity to grow the business, our propensity to take those actions, but we are trying to be as clear as we can be and address some of the concerns we've heard in our discussions with shareholders and analysts around the commitment to maintain the core given the previous things that have been said about prior year.

[Andy] We have time for one more question because I just imagine people are getting peckish. Can I come to Barrie, because Oliver, you've already had one. Your out of time for lunch.

[Barrie Cornes] Sorry Oliver, it's Barrie Cornes, Panmure Gordon, just one question actually. Aviva yesterday talked about growing their GI book by about 20% and in particular they talked about UK SME. I just wondered, I think Penny you mentioned in passing the word optionality when you talk about MG, NIG. Just wondered how wedded you are to maintain it as part of the group.

Penny - I think I was pretty clear. I like that business. I think we believe overall that our SME business consists of both DL4B which is growing very rapidly, and the SME bits of that are growing, are not far off the rates that Aviva, Aviva just mentioned coincidentally. And NIG, which is a much longer-term, more stable, broker-driven, a relationship brand book which has been going for 125 years pretty successfully. So you're right, we have options and it operates on a different brand. It's always an option for us. But the reality is we like the business. It fits I think with the fact that we're trying to have a basket of opportunities for individuals to come with us, come to us wherever they want to. And the underlying performance of the business has improved dramatically over five years or so. And as long as we can continue to see premium inflation outstripping claims inflation and so on, then we'll be comfortable with that book. So I can't talk for Aviva, their plans, and where they're going to come from, so. John Greenwood who runs that book is here if you want to grill him at lunchtime.

[Andy] Let me say, Oliver if you still want to ask your question, we've just got one more minute if you want to just ask your last question.

Oliver Steele - Thank you. Tim, you talked about significant opportunities on the balance sheet. Have we covered those with reinsurance, M&A, selling NIG, etcetera, or are there other things you meant to talk about.

Tim - There's, there's other things in our mind. But we're not going to talk about any specifics today. We, as I said, we're lucky I think to have had a team who's been thinking quite actively about a number of options and is actively working on some of them, but judge us on what we deliver in our area. But I wouldn't want anybody to think it's limited purely to reinsurance.

[Andy] Okay, thank you everybody.