

**Strategic report**

For the year ended 31 December 2020

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**Solvency capital ratio<sup>1</sup>**

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*Definition* - A risk-based measure expressing the level of capital resources held as a percentage of the level of capital that is required under Solvency II.**2020: 171%***Aim* - The Company seeks to hold capital resources such that in the normal course of business, the Solvency II capital coverage ratio is maintained above a minimum threshold of 128% of its SCR.**2019: 145%**

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Note:

1. Estimates based on the Company's Solvency II internal model.

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**Customer complaints**

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*Definition* - The number of complaints received during the year as a proportion of the average number of in-force policies.**2020: 0.51%***Aim* - This measure indicates the level of customer service we provide. The Company aims to improve this over time.**2019: 0.63%**

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**Net promoter score<sup>1</sup> (points)**

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*Definition* - This is an index that measures the willingness of customers to recommend the Company's products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.**2020: 158.0***Aim* - The Company aims to improve this over time.**2019: 155.0**

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Note:

1. On an aggregated 12-month rolling basis, with 2013 rebased to 100.

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**Financial performance and the impact of Covid-19**

The Company's financial performance is presented in the profit and loss account on page 21 and statement of comprehensive income on page 22.

Gross premiums written of £3,180.4 million (2019: £3,203.1 million) decreased by 0.7% with strong premium growth in Commercial, own brand Home and Green Flag Rescue offset by lower Motor and Home partnership premiums and the impact of Covid-19 disruption in Travel.

The Company's combined operating ratio improved by two percentage points to 93% (2019: 95%), with the loss ratio decreasing as higher major weather-related claims and lower prior year reserve releases were more than offset by improved current-year profitability. Overall, the impact of the pandemic was a modest net benefit to the financial performance, with the effects concentrated in four main areas:

- reduction in Motor claims frequency with levels falling to around half the normal levels during Q2;
- increase in Travel claims relating to both claims volumes and claims handling costs and additional commission payments;
- estimated £6 million in Covid-19 related business interruption claims; and
- investment to support customers, people and society.

The improvement in the loss ratio was partially offset by a higher commission ratio and higher expense ratio. The commission ratio increased primarily as a result of increased payments, particularly on packaged bank accounts, and volume related commission payments to PCWs, while the expense ratio increased due to investment in initiatives to protect the Company's customers, people and society during the Covid-19 pandemic and the cost of certain restructuring programmes announced in the year. Prior-year reserve releases decreased in 2020 but continued to be significant at £176.7 million (2019: £294.0 million) and were equivalent to 6.0% of net earned premium (2019: 9.8%). The Company expects prior-year reserve releases to remain a significant contribution to profits.

The Company's technical result improved by £59.6 million to £201.4 million (2019: £141.8 million), primarily due to reduced claims frequency in Motor and Commercial as a result of Covid-19 lockdown restrictions, offset by increased weather costs and lower prior-year reserve releases. Investment income decreased by £17.0 million to £126.3 million (2019: £143.3 million) reflecting the dual impact of lower investment rates and reductions in property income. Other income decreased by £10.4 million to £124.4million (2019: £134.8 million) as a result of lower instalment income and lower vehicle replacement referral income.

Profit on ordinary activities before taxation increased by £17.4 million to £386.9 million (2019: £369.5 million) due to an increase in the technical result off-set by reductions in investment and other income.