

A strategy targeting sustainable growth

Our strategy looks to position us as a multi-brand, multi-product and multi-channel business to enable us to meet our customers' needs now and in the future, regardless of how and where they buy our products. Supporting this strategy is a substantial and ongoing change and investment agenda.



Make insurance much easier and better value for our customers

Our strategic pillars

Great retailer

We have compelling brands and multiple customer propositions and deliver a strong customer experience which we constantly evolve to meet the needs of our customers.

Smart and efficient manufacturer

Our scale and data allow us the efficiency and flexibility to deliver better customer and claims service and better risk insights.

Lead and disrupt

By embracing the future, we aim to shape it and launch new products and services which anticipate consumer trends so that we continue our tradition of disruptive change.

Our key enablers

Data and technology

We aim to harness the power of technology and the scale of our data to make things easier for our customers and our people.

Culture and capability

We invest in our people to help them realise their potential because it leads to better customer experience and more sustainable business performance.

Capital and risk management

We maintain an appropriate level of capital and solvency to manage our customers' pool of risks while understanding, monitoring and managing our own existing and emerging risks within carefully defined parameters.

Our multi-channel approach

Direct

The growth in Direct Line and Green Flag demonstrates that if you give customers a reason to come direct then they will, as we strive to deliver excellent value for our customers and our shareholders.

Price comparison websites

Strong brands and propositions are important but so are great prices. We are improving our effectiveness on price comparison websites through our work on pricing and in dealing with fraud, supported by our investment in latest generation IT systems.

Partnerships

We are leveraging our manufacturing strength through our digital capabilities to seek to develop innovative and profitable partnerships.



Read about our progress in 2018 on pages 20 – 21

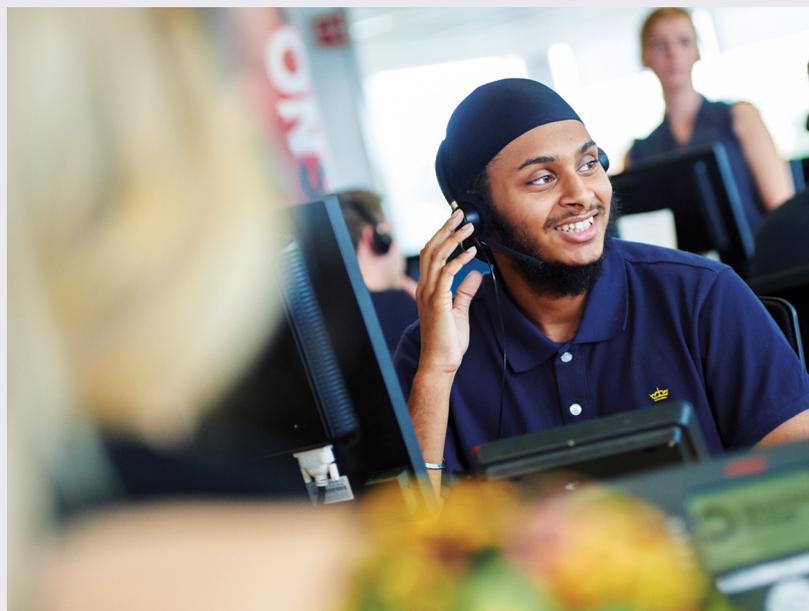
Strategy in action

As a forward-looking and proactive business, we are constantly evolving our offer to meet our customers' needs and taking advantage of significant advances in technology. In 2018 we continued to improve our competitiveness, agility and efficiency across the business.

Connecting with our customers

Our people are committed to doing their very best for our customers and our business every day. We are particularly proud of how our people step up to the challenge to get our customers' lives back on track during severe weather periods such as the freezing weather we saw in Q1 2018. One of our values is to aim higher and we actively encourage everyone to push themselves and learn new strengths. We know that customers have differing needs when it comes to buying insurance, which is why we use our frontline experience to develop new propositions based on customer feedback.

It is also why we introduced a training programme called CONNECT, which has been accredited by the Institute of Customer Service, for our people in a customer facing role. This training helps to ensure that our customers receive a personalised service which matches their expectations and needs. The programme enables our people to learn about the different approaches customers may take and gives them the skills to respond with empathy, whilst also taking responsibility and accountability. This is important for our customers who are dealing with difficult situations such as illness or bereavement and vulnerable customers who need additional help to ensure that their cover is the right cover for them. Based on the CONNECT training, our people who successfully demonstrate high levels of customer service receive a certificate of accreditation from the Institute of Customer Service. The impact is clear from customer benchmarking studies which measure the willingness of customers to recommend products or services, adding to our ability to maintain strong customer retention rates.



Bristol

Our new Bristol office, The Core, has created a new and dynamic environment for our people to serve our customers. It has given our people a variety of new workspaces to support collaboration and flexible working, all in a fully refurbished building half the size of our previous site.

Environmental considerations were central to the design. LED lighting, new chillers, heating, ventilation and an air conditioning system have made the site more energy efficient. Run costs are now 55% lower than they were in 2016. The Core is the latest example of how we are looking to shape our technology and workspaces for the future, while meeting our environmental objectives. We are proud it has reduced our carbon emissions in our Bristol office by 62%.

Latest generation IT systems

We continue to build our latest generation IT capabilities designed to enable much more customer self-service and straight-through processing and to give our customers easier and quicker service at a lower cost whilst improving the efficiency and flexibility of the business.

Over the next few years we also plan to wind down and then remove our existing mainframe, while growing our use of the cloud. This is planned to give us flexibility in the future to deal with changing business requirements and changes in technology.

Green Flag

We believe our challenger brand has great growth potential and demonstrated this again by achieving another period of double digit growth in policy count and premiums. Our marketing targets the two-thirds of major competitors' customers who renew without much thought and aims to 'wake them up' by dramatising how we match the best things about their service whilst saving half their renewal premium.

We know that service matters a lot in this market – customers won't sacrifice it for price. We've brought in new leadership and brought the business together – not only in reporting lines but also physically to create rescue 'centres of excellence' to deliver this great service. We will be using many of the same agile techniques that have proved successful in delivering fast and affordable change for Direct Line for Business.

640,000

**breakdowns responded to in 2018
– that's 1 every 49 seconds**

Price comparison websites

This year a working group has focused on establishing a price comparison website hub aiming to drive capability across the Group by assessing customer needs throughout the entire price comparison website sales journey. A dedicated team, using digital resource and data analytics, is seeking to build greater expertise and agility in real time, enabling better insight on pricing and the opportunity for swifter decision-making. This is important for a sales platform that operates on very different market dynamics compared to selling direct. By working across product lines the working group has instilled a price comparison website-focused philosophy to safeguard against functional thinking that can otherwise restrict effectiveness.



Accident repair centres

We continued to expand our network of accident repair centres and now have 20 sites across the UK, giving us more capability to deliver our seven day repair proposition for Direct Line customers. This year alone, we repaired over 85,000 vehicles, building on our excellent record of customer service. By investing in the latest technology we are preparing the business for the future by better understanding how technology will affect the design and manufacture of cars.

Our high operating efficiency has also allowed us to deliver excellent cost control while meeting our environmental targets through lowering emissions and increased recycling of parts.

85,000+

vehicles repaired

Renewal pricing principles

The lack of barriers to shopping around for insurance brings substantial benefits to consumers who benefit from cheaper prices. However, we recognise that whilst shopping around can bring benefits to those who do it, it does create differences between new customer premiums and subsequent renewal premiums.

The Group has taken several steps to tackle this issue in recent years. In 2016 we backed the Association of British Insurers' and the British Insurance Brokers' Association's Code of Good Practice to ensure that our people were trained to identify potential vulnerable consumers. We believe that renewal premiums should not become excessive over time so we put in place checks and balances for our long-standing customers. Increasing numbers of long-standing customers have seen their renewal premium either frozen or reduced as a result. This year we welcomed the Association of British Insurers' principles which are intended to help embed best practice across the industry.

 Find out more in our
Market overview on page 18

In-car technology

The automotive industry is undergoing dramatic change with improvements in in-car technology and the advent of electric, connected and autonomous vehicles. We are embracing these changes and the opportunities they may present for us to evolve our products. We are maintaining our industry-leading position through our partnerships with MOVE_UK in Greenwich and our participation in StreetWise, which aims to put driverless cars on the streets of Croydon in 2019. We also continue to work with motor manufacturers such as Volkswagen, Peugeot, Citroën and Tesla, evolving our products to match their customers' needs.