

Board and Committee effectiveness review

In accordance with the Code, the Board conducts a thorough annual review of the effectiveness of the performance of the Board, its committees, the Chairman and individual Directors, with the input of an external facilitator at least once every three years. In 2019, the Nomination and Governance Committee recommended that an independent Board effectiveness review be facilitated by Robert Goffee, Professor of Organisational Behaviour at the London Business School, who has no other connection with the Company or any Director. Professor Goffee, who also conducted the Board and committee effectiveness review in 2016, agreed the process with the Chairman and the Company Secretary.

The effectiveness review was based on the completion of a questionnaire which covered a range of topics including: the composition and diversity of the Board, leadership and culture and how effectively the Board works together to achieve objectives of the Group. In addition to the members of the Board, regular attendees of the Board and/or committee meetings were invited to complete the questionnaire.

Professor Goffee conducted one-to-one interviews with Board members and regular attendees to discuss their views on the effectiveness of the Board and its six committees, and the contributions to proceedings made by Directors and others, to provide wider context for, and clarification of the results of, the questionnaire.

The final report was presented to the Board and its committees in January 2020. Observations about individual Directors' contributions assisted the Chairman in his reviews of Directors' performance and the SID in the review of the Chairman's performance, on which he consulted in advance with other Board members.

Based on the responses to the questionnaire and resulting reports, the Directors are satisfied that the Board and its committees operated effectively in 2019 and there has been progress in areas for potential improvement identified in 2018.

The Board and its committees were regarded by participants in the review to benefit from effective leadership and to have clear remits and access to appropriate resources. Opportunities were identified, as a result of the review, for fine-tuning the information provided to the Board, refining the NED induction programme, refocusing the Corporate Responsibility Committee's supervision of the increasingly important sustainability agenda and drawing on individual NEDs'

experience to support management in its substantial transformational execution agenda. It was proposed to renew a programme of visits by the Board as a whole, and by smaller groups of NEDs, to the Group's various operational sites to foster interaction between the Board and employees; and to create further opportunities for NEDs to engage with the newer members of the Executive Committee and the wider management team.

The Nomination and Governance Committee regularly considers the Group's short- and medium-term strategic challenges to assess the collective skills and experience needed by the Board to support and challenge management. Some suggestions for further strengthening the membership of some of the Board's committees were made in the course of the 2019 effectiveness review and these will be taken into account as the Board's composition is refreshed in 2020 and 2021.

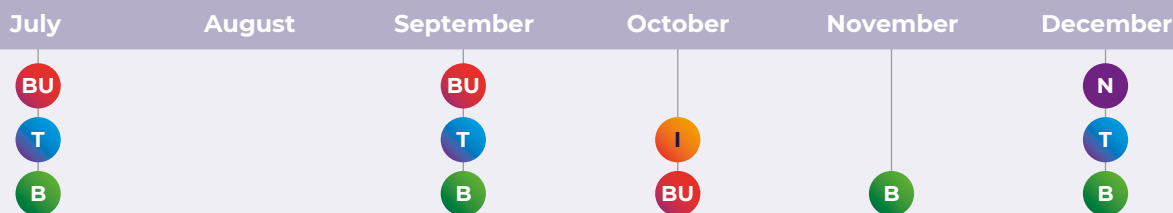
Culture

The Board recognises that culture and capability are key enablers for achieving the Group's strategic objectives and encourages an open and inclusive culture and an environment in which people can be themselves.

During the year the Board championed the Group's culture through:

- Assessing and monitoring culture and satisfying itself that the Group's purpose, values and strategy are aligned with its culture.
- Reviewing and updating the Code of Business Conduct to ensure that it reflects the Group's purpose and sustainability strategy.
- Reviewing means for the workforce to raise concerns in confidence and, if they wish, anonymously ("**whistleblowing**"). Further details on the Group's whistleblowing arrangements can be found on page 99.
- Seeking feedback from our people through the annual 'DiaLoGue Survey', a tool to measure engagement, which this year included questions on inclusivity and culture. We believe that promoting an open and collaborative culture helped result in Direct Line Group being named as the 3rd Best Big Company to work for by The Sunday Times in February 2019.
- NEDs' attendance at ERB meetings to encourage effective engagement between employees and the Board. Further information on the Board's interaction with the ERB is disclosed later in this report.
- Investing in and rewarding our workforce. During the year, we continued to review our pay budget focusing specifically on those in lower paid roles. We increased

- I Induction
 T Board training
 M Annual general meeting



minimum salaries across the Group from £18,000 to £19,000, dependent on contracted hours. These colleagues received a pay increase of approximately 5.6%.

- Supporting the Strategic Leadership Development Programme, the aim of which is to create a pipeline of diverse talent for development into future senior leaders.
- Enabling our employees to benefit from the Group's success. All eligible employees can participate in the Group's Buy As You Earn ("BAYE") Plan which provides a cost-effective way for all employees to acquire shares in the Company.
- Supporting management's emphasis on employee wellbeing, including mental health awareness and financial wellbeing.

Approach to diversity and inclusion

The Board and executive management are committed to ensuring that diversity is promoted across all areas of the Group and that everyone is treated fairly, irrespective of their racial or ethnic origin, gender, age, disability, belief or sexual orientation, religion, or educational or professional background. There is a Board-approved diversity policy and progress has been made in embedding principles and practices to promote diversity across the Group and to champion the benefits of a diverse and inclusive workforce.

The principles and practices set by the Board and the progress made with the diversity of the Board include:

1. Maintaining at least 30% female representation on the Board

The Board aims to maintain female representation of at least 30% and remains committed to seeking to improve further its position on gender diversity when appropriate opportunities arise. The Board will continue to appoint the most appropriate candidates based on knowledge, skills, experience and, where necessary, independence. As at the date of this report, female representation on the Board was 40% which exceeds the target set in Lord Davies' Women on Boards Review Five Year Summary to be achieved by 2020 and achieves the Hampton-Alexander Review's recommendation for a minimum of 33% of women's representation on boards by 2020.

2. Engaging executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice

In its search for candidates, the Board aims to only engage with executive search firms who are signatories to the Voluntary Code of Conduct for Executive Search Firms as recommended by Lord Davies.

During the year, the Nomination and Governance Committee worked closely with Egon Zehnder which culminated in the appointment of Tim Harris as CFO with effect from 1 October 2019. Egon Zehnder is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no other connection to the Company or any Director.

Senior management gender diversity

The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given the opportunity to progress their career internally.

The Group is a signatory to the Women in Finance Charter which aspires to see gender balance at all levels across financial services firms. The Group aimed to increase female representation at senior management level to 30% by the end of the year and as at 31 December 2019, 31% of the Group's senior leadership positions were held by women.

The Board continues to support Group-wide diversity initiatives, including succession planning programmes, to broaden and strengthen female talent at middle management level. Other key 2019 gender diversity initiatives included: the promotion of flexible working; a partnership with the EveryWoman network which helps organisations enhance the potential of female talent; and mentoring schemes and associated development programmes for high-potential female candidates.

Additional 2019 diversity initiatives

The Board acknowledges that diversity includes but is not limited to gender and aims to increase demographic and philosophical differences at Board level and throughout the Group.

The Board advocates the importance of cultural and ethnic diversity and aims to increase the ethnic diversity across the Group including at Board and senior management level. The Board and senior management continue to support the DNA network which champions diversity and inclusion within our organisation through strands relating to generational divide, unconscious bias, belief, Black, Asian and minority ethnics, gender, sexual orientation, disability, working families and neuro-diversity.

The Board has oversight of diversity initiatives carried out through the remit of the Corporate Responsibility Committee. Further details on diversity initiatives can be found in the Strategic report and in the Corporate Responsibility Committee report.

Further information regarding the Group's approach to diversity including the process for Board appointments and reappointments can be found in the Nomination and Governance Committee report.