

DIRECT LINE INSURANCE GROUP PLC TRADING UPDATE FOR Q3 2021¹ CONTINUED PROGRESS ON TRANSFORMATION

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"We are pleased with our Q3 2021 trading performance. During the quarter, our direct own brand policy count grew overall while stabilising in Motor.

"We have made strong progress in executing our strategy and have begun to see improved pricing competitiveness in Motor as a result of the capability delivered by our new platform. We have also successfully launched an electric vehicle proposition for our Direct Line brand, which helps make the switch to electric easier for our customers and builds on our expertise in this growing market.

"We are also on track to implement the FCA's new pricing practices regulations at the start of next year. Whilst market pricing in the first few months of 2022 is likely to be volatile as the market resets, our brands, customer focus and diversified business model mean we remain confident.

"Our transformation progress, delivery of new propositions and improved competitiveness, combined with our focus on disciplined underwriting, mean we are well placed as we look ahead and we reiterate our combined operating ratio target of 93% to 95% over the medium term."

Trading summary

	Q3 2021	Q3 2020	Change	9 months 2021	9 months 2020	Change
	£m	£m		£m	£m	
Gross written premium						
Motor direct own brands ²	426.2	434.2	(1.8%)	1,159.5	1,213.1	(4.4%)
Motor partnerships	14.7	13.0	13.1%	37.0	39.4	(6.1%)
Motor	440.9	447.2	(1.4%)	1,196.5	1,252.5	(4.5%)
Home direct own brands ²	112.8	112.8	0.0%	311.4	306.4	1.6%
Home partnerships	42.1	43.8	(3.9%)	121.8	126.3	(3.6%)
Home	154.9	156.6	(1.1%)	433.2	432.7	0.1%
Green Flag Rescue	28.6	26.2	9.2%	69.5	65.4	6.3%
Other Rescue and other personal lines	79.3	85.0	(6.7%)	224.9	255.9	(12.1%)
Rescue and other personal lines	107.9	111.2	(3.0%)	294.4	321.3	(8.4%)
Commercial direct own brands ²	49.6	44.4	11.7%	140.5	123.0	14.2%
NIG and other	103.8	92.1	12.7%	349.0	302.8	15.3%
Commercial	153.4	136.5	12.4%	489.5	425.8	15.0%
Total Group	857.1	851.5	0.7%	2,413.6	2,432.3	(0.8%)
Of which: direct own brands ²	617.2	617.6	(0.1%)	1,680.9	1,707.9	(1.6%)
	30 Sep 2021	30 Jun 2021	Change		31 Dec 2020	Change
In force policies (thousands)	14,410	14,471	(0.4%)		14,615	(1.4%)
Of which: direct own brands (thousands) ²	7,513	7,465	0.6%		7,454	0.8%

Financial highlights

- Direct own brands in-force policies grew in Q3, increasing by 0.6% across the quarter. Motor policies stabilised and all other own brand products saw growth. Total policies reduced by 0.4%.
- Total gross written premium increased by 0.7% compared with Q3 2020 as strong growth in Commercial and Green Flag Rescue of 12.4% and 9.2% respectively was offset by lower premiums in Motor and Travel.
- In Motor, we continued to focus on maintaining the quality of our book and continued to price for claims severity inflation. Market pricing, however, was not reflective of observed claims inflation in the quarter. Despite this, our direct own brand policy count stabilised during the quarter as we improved our competitiveness following the launch of our new motor platform.
- Motor claims frequency continued to trend towards the level assumed in our pricing whilst claims severity inflation was slightly above our 3 to 5% medium-term expectations. This was largely due to inflation in second-hand vehicles, which impacted total loss settlements but our in-house vehicle accident repair network allowed us to partially mitigate this. We continue to expect our Motor current-year attritional loss ratio in H2 to return closer to underlying 2020 levels of around 79%.

- Home direct own brands in-force policies continued to grow, albeit at a slower rate. The market became increasingly competitive during Q3, particularly in the price comparison website ("**PCW**") channel as we approach the implementation of the FCA pricing practices review. Direct own brands gross written premium was flat compared to Q3 2020.
- Green Flag Rescue returned to strong growth, with premiums increasing 9.2% compared with Q3 2020 and in force policies increasing by 3.4% across the quarter. This was offset by Other Rescue and other personal lines, with our Travel business reflecting reduced levels of international travel.
- Commercial continued to see the benefits of its transformation come through, with strong growth across both direct own brands and NIG and other. Gross written premium increased by 12.4% compared to Q3 2020 and policies increased by 1.4% across the quarter.
- The Group experienced weather event claims in Q3 of £7.5 million in Home and £9.5 million in Commercial. Year to date total weather events are estimated at £20 million compared to our annual budget assumption of £69 million for 2021.

Strategic and operational highlights

We continued to transform into a data and technology-led insurer. With the major elements of the Motor technology transformation now complete, our focus turns to extracting the benefits from this new capability.

- Continued the operational embedding and honing of our new Motor platform. We refreshed our risk premium models and introduced new capability that aims to enable greater pricing accuracy. The new platform continued to drive improved efficiency, with the proportion of own-brand customers choosing to self-serve increasing month on month.
- Launched a new Direct Line proposition helping to make the transition to electric vehicles easier for customers by providing customers free access to a bundle of electric vehicle-related services, including discounted home charging installation.
- Continued to develop our approach to meet our commitment to set Science-Based Targets via the Science Based Targets initiative, including launching our Supply Chain Sustainability Programme.
- On track for implementation of the FCA's general insurance pricing practices review from 1 January 2022, having met the product governance deadline at the end of September 2021.
- Bought back £47.6 million of shares to date³ in relation to the second £50 million tranche of the £100 million share buyback programme announced earlier this year.

Outlook

- We reiterate our medium-term target of achieving a combined operating ratio in the range of 93% to 95%, normalised for weather. For 2021, following lower than normal claims frequency in Motor and strong prior-year reserve releases, we continue to expect a combined operating ratio in the range of 90% to 92%, normalised for weather.

For further information, please contact

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APPENDIX 1: In-force policies by segment (thousands)

	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
Motor direct own brands ²	3,858	3,867	3,896	3,943
Motor partnerships	104	108	113	118
Motor	3,962	3,975	4,009	4,061
Home direct own brands ²	1,890	1,880	1,861	1,837
Home partnerships	792	797	799	801
Home	2,682	2,677	2,660	2,638
Green Flag Rescue	1,172	1,134	1,108	1,114
Other Rescue and other personal lines	5,732	5,835	5,913	5,991
Rescue and other personal lines	6,904	6,969	7,021	7,105
Commercial direct own brands ²	593	584	571	560
NIG and other	269	266	260	251
Commercial	862	850	831	811
Total Group	14,410	14,471	14,521	14,615
Of which: direct own brands ²	7,513	7,465	7,436	7,454

Notes:

1. Direct Line Group's Trading Update relates to the three months and nine months ended 30 September 2021 and contains information to the date of publication.
2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial policies under the Direct Line for Business and Churchill brands.
3. As at close of business on 5 November 2021.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "will" or "would" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control. Forward-looking statements are not guaranteeing future performance.

The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("UK") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Co-operation Agreement between the UK and the European Union ("EU") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any new rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads;
- the policies and actions and/or new principles, rules and/or changes to, or changes to interpretations of existing principles, rules and/or regulations, of regulatory authorities and bodies (including changes related to capital and solvency requirements or to the Ogden discount rate or rates or in response to the Covid-19 pandemic and its impact on the economy and customers) and changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions and requirements and of court, arbitration, regulatory or ombudsman decisions and judgements (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

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