

DIRECT LINE INSURANCE GROUP PLC

TRADING UPDATE FOR Q1 2021¹

TRANSFORMATION ON TRACK

5 May 2021

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED:

“The first quarter saw similar motor market trends to those at the end of 2020, namely subdued claims frequency, low levels of new car sales and fewer new drivers entering the market. This led to further motor market premium deflation in the quarter. Against this backdrop, we maintained our disciplined underwriting and our 5% reduction in average premium versus Q1 2020 was less than the market reduction. This focus on maintaining the quality of our business leaves us well placed as lockdown restrictions are eased. Looking forward, encouraging early indications suggest that motor market premiums stabilised during April.

“Elsewhere in the business, we have continued to deliver good growth in Home, whilst Commercial achieved 16% growth. This demonstrates the benefits of our investment in technology and new ways of working as well as the diversification within our portfolio.

“Our journey to build an insurance company of the future is gathering pace and we achieved a significant milestone with Direct Line, Churchill and Privilege now live on our new Motor platform. We also acquired a new auto services repair centre – our 22nd – supporting our competitive advantage in vehicle repairs, which will become increasingly important as more people start driving again. We are transforming the business to improve competitiveness and provide a platform for sustainable growth.”

Trading summary

	Q1 2021 £m	Q1 2020 £m	Change
Gross written premium			
Motor direct own brands ²	356.7	396.5	(10.0%)
Motor partnerships	10.6	14.4	(26.4%)
Motor	367.3	410.9	(10.6%)
Home direct own brands ²	99.9	96.4	3.6%
Home partnerships	40.4	41.4	(2.4%)
Home	140.3	137.8	1.8%
Green Flag Rescue	19.4	19.7	(1.5%)
Other Rescue and other personal lines	71.3	88.6	(19.5%)
Rescue and other personal lines	90.7	108.3	(16.3%)
Commercial direct own brands ^{2,3}	45.3	39.3	15.3%
NIG and other	108.7	93.3	16.5%
Commercial	154.0	132.6	16.1%
Total Group	752.3	789.6	(4.7%)
Of which: direct own brands ²	521.3	551.9	(5.5%)
	31 Mar 2021	31 Dec 2020	Change
In-force policies (thousands)	14,521	14,615	(0.6%)
Of which: direct own brands (thousands) ²	7,436	7,454	(0.2%)

Financial highlights

- In deflationary Motor market conditions, we maintained underwriting discipline during the first quarter. Whilst this led to a reduction in direct own brand Motor policies by 1.2% compared to Q4 2020, we are well positioned as the UK eases lockdown restrictions. Against a pre-Covid comparator, Motor’s total gross written premium fell 10.6% reflecting lower average premiums as the market adjusted to reduced claims frequency, alongside reduced risk mix due to fewer new car sales and new drivers entering the market.
- Home direct own brands gross written premium increased by 3.6% compared to Q1 2020. In-force policies increased by 1.3% compared to Q4 2020. Both Churchill and Direct Line delivered growth in a healthy new business market. Overall Home gross written premium grew 1.8% as own brand growth was only partially offset by lower partnership sales. Weather conditions were benign in Q1, with £3 million of major weather claims incurred.
- Rescue and other personal lines gross written premium was 16.3% lower year-on-year, primarily due to reduced Travel partnership premiums. Green Flag Rescue was impacted by reduced shopping levels during lockdown, with policy count reducing by 0.5% across the quarter, whilst premiums were down by 1.5% compared to Q1 2020.

– Commercial continued to see the benefits of its technology transformation come through in strong trading, with gross written premium growth of 16.1%. This was driven by a 15.3% increase in direct premiums as small to medium enterprise (“SME”) trading on the Direct Line for Business platform grew despite lockdown restrictions. This was supported by Commercial’s Churchill brand which delivered growth of over 50% compared to Q1 2020. NIG and other increased gross written premium by 16.5% compared to Q1 2020, its best first quarter growth in over 10 years, helping it to provide an increasingly strong diversification benefit for the Group.

Strategic and operational highlights

- The roll-out of the Motor platform continues at pace with all own brands now live. Customer, pricing and operating benefits from the new system are already being realised and are scheduled to increase over the next 18 months.
- We continued to expand our claims capabilities with the acquisition of our 22nd auto services repair centre. This acquisition supports our competitive advantage in vehicle repairs which will become increasingly important as driving levels increase. We continue to invest in capability to repair more advanced and electric vehicles.
- Our newest Motor brand, Darwin, continued to deliver strong growth and has written over seventy thousand policies.
- Direct Line for Business launched a ‘Free MOT’ proposition for Van new business customers.
- The final rules from the FCA’s General Insurance Pricing Practices review will be announced by the end of May 2021, with governance elements to be implemented by the end of September 2021 and full implementation by the end of December 2021. We welcome the extended timeframes and remain on track to meet them.

Outlook

- We reiterate our target of achieving a combined operating ratio in the range of 93% to 95%, normalised for weather, in 2021 and over the medium term. We are on track to maintain the contribution from current-year operating profit at more than half of total operating profit during 2021.

For further information, please contact

PAUL SMITH
INVESTOR RELATIONS DIRECTOR
Mobile: +44 (0)7795 811263

LISA TREMBLE
GROUP CORPORATE AFFAIRS AND SUSTAINABILITY DIRECTOR
Mobile: +44 (0)7795 234801

APPENDIX: In-force policies by segment (thousands)

	31 Mar 2021	31 Dec 2020	Change
Motor direct own brands ²	3,896	3,943	(1.2%)
Motor partnerships	113	118	(4.2%)
Motor	4,009	4,061	(1.3%)
Home direct own brands ²	1,861	1,837	1.3%
Home partnerships	799	801	(0.2%)
Home	2,660	2,638	0.8%
Green Flag Rescue	1,108	1,114	(0.5%)
Other Rescue and other personal lines	5,913	5,991	(1.3%)
Rescue and other personal lines	7,021	7,105	(1.2%)
Commercial direct own brands ^{2,3}	571	560	2.0%
NIG and other	260	251	3.6%
Commercial	831	811	2.5%
Total Group	14,521	14,615	(0.6%)
Of which: direct own brands ²	7,436	7,454	(0.2%)

Notes:

1. Direct Line Group’s Trading Update relates to the three months ended 31 March 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 under the Direct Line for Business and Churchill brands.
3. Commercial direct own brands include Direct Line for Business and commercial products sold under the Churchill brand that were previously reported within NIG and other. Prior periods have been re-presented accordingly.

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” or “will” 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

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- 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 future 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 of regulatory authorities and bodies (including changes related to capital and solvency requirements or 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 Covid-19) 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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