

DIRECT LINE INSURANCE GROUP PLC TRADING UPDATE FOR Q1 2022¹

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"In an important quarter for Motor and Home markets, prices adjusted for the introduction of the FCA Pricing Practices review, but we believe have not fully reflected claims inflation. In this context, we achieved a lot, pushing forward key elements of the strategy, increasing customer retention in Motor and Home and delivering double-digit growth in Commercial. Trading was broadly in line with our expectations.

"Looking forward, we are focused on driving benefits from our new Motor platform and continue to deliver significant new pricing capability, including machine learning models, with more to come through the rest of the year.

"The disciplined approach we have taken during Q1 and the operational progress we have made mean we can reiterate our combined operating ratio target of 93% to 95% in 2022."

Trading summary

	Q1 2022	Q1 2021	Change
	£m	£m	
Gross written premium and service fees²			
Motor direct own brands ³	338.5	356.7	(5.1%)
Motor partnerships	8.8	10.6	(17.0%)
Motor	347.3	367.3	(5.4%)
Home direct own brands ³	91.8	99.9	(8.1%)
Home partnerships	34.6	40.4	(14.4%)
Home	126.4	140.3	(9.9%)
Green Flag Rescue ²	19.3	19.4	(0.5%)
Other Rescue and other personal lines	69.4	71.3	(2.7%)
Rescue and other personal lines	88.7	90.7	(2.2%)
Commercial direct own brands ³	52.9	45.3	16.8%
NIG and other	119.0	108.7	9.5%
Commercial	171.9	154.0	11.6%
Total Group	734.3	752.3	(2.4%)
Of which: direct own brands ^{2,3}	502.5	521.3	(3.6%)
	31 Mar 2022	31 Dec 2021	Change
In-force policies (thousands)⁴	13,291	14,565	(8.7%)
Of which: direct own brands (thousands) ³	7,459	7,529	(0.9%)

Trading update

Overall gross written premium in Q1 2022 was 2.4% lower than Q1 2021, as we traded to protect value in Motor and Home as those markets stabilised following the implementation of the FCA's pricing practices reforms, whilst we continued to grow Commercial.

In Motor, market new business premiums increased by mid-single digits early in January and were flat through the rest of the quarter. Across the market, we do not believe this adequately covers the level of claims inflation experienced over the last 18 months. Against this backdrop we remained disciplined and held back marketing whilst still increasing customer retention. This, together with the effect of 2021 premium reductions, reflecting lower claims frequency expectations, resulted in a 5.4% reduction in gross written premium. In April, we have seen some premium increases in the market.

Motor claims severity inflation remains high with continued elevated used car prices, which impact total loss and theft claims, and supply chain disruption further increasing repair cycle times across the quarter. We continue to believe that our in-house accident repair centres give us competitive advantage. The increase in severity was broadly offset by claims frequency which remained modestly below expectations.

In Home, market new business premiums increased by high-single digits in January and continued modest increases for the rest of the quarter compared to a strong Q1 in 2021. We have always said that the FCA pricing reforms would have a bigger impact on the home market and this can be seen in our trading performance. Whilst we have seen customer retention increase in the first quarter, this was more than offset by lower new business volumes.

Commercial maintained its momentum from 2021 with double-digit gross written premium growth. NIG continued to see benefits from its improved pricing capability and strong broker relationships, whilst Direct Line for Business and Churchill's business brand made good progress in building the micro and small to medium enterprise ("SME") market. Premium inflation in Commercial remained ahead of claims inflation during the quarter. Strong growth continued in April.

Weather costs from storms Dudley, Eunice and Franklin are expected to be around £40 million, compared with an early estimate of £30 million to £40 million, across Home and Commercial, which is within our weather budget assumption of £73 million for the year.

Strategic update

We aim to deliver significant capability during 2022 and we are excited with the progress that we have made. In Motor we developed new pricing techniques, including the use of machine learning models designed to improve speed and accuracy. Our risk pricing is now materially more advanced than our existing capabilities and we have more models due to go live in Q2.

In April, we launched our latest Direct Line superhero campaign, which underlines our strong customer propositions. We have a pipeline of compelling brand marketing in Direct Line, Churchill and Green Flag to come during the year.

Alongside extending our long-term Home partnership with NatWest Group until 2027 earlier in the quarter, we have also made good progress towards welcoming across over 640,000 new Motability customers, representing around £500 million of gross written premium⁵, expected to start from September 2023.

Capital management

On 27 April 2022 we redeemed the remaining £250 million of the £500 million subordinated notes which were issued on 27 April 2012. This redemption significantly reduces our average financing costs with the redeemed notes paying a 9.25% coupon compared to a 4.0% coupon on the £260 million 2020 Tier 2 issue.

We have bought back £23.9 million of shares as at close of business on 29 April 2022 at an average price of 267 pence in relation to the first £50 million tranche of the £100 million share buyback programme announced earlier this year.

On 27 April 2022 Moody's Investors Service confirmed the 'A1' rating with a stable outlook for the Group's principal underwriter, U K Insurance Limited.

Outlook

We reiterate our target of achieving a combined operating ratio in the range of 93% to 95%, normalised for weather, in 2022 and over the medium-term.

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Notes:

1. Direct Line Group's Trading Update relates to the three months ended 31 March 2022 and contains information to the date of publication.
2. Green Flag Rescue includes £1.1 million of service fees recognised as other income in Q1 2022. For certain new customers, the amount they pay is split between premium and a service fee where prior to 2022 this was entirely premium.
3. 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.
4. The reduction in in-force policies relates to the removal of Travel insurance cover from a partner's bank account proposition.
5. As reported previously, of which we expect 80% to be reinsured.

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

	31 Mar 2022	31 Dec 2021	Change
Motor direct own brands ¹	3,854	3,869	(0.4%)
Motor partnerships	100	102	(2.0%)
Motor	3,954	3,971	(0.4%)
Home direct own brands ¹	1,825	1,879	(2.9%)
Home partnerships	783	788	(0.6%)
Home	2,608	2,667	(2.2%)
Green Flag Rescue	1,167	1,179	(1.0%)
Other Rescue and other personal lines ²	4,684	5,877	(20.3%)
Rescue and other personal lines	5,851	7,056	(17.1%)
Commercial direct own brands ¹	613	602	1.8%
NIG and other	265	269	(1.5%)
Commercial	878	871	0.8%
Total Group²	13,291	14,565	(8.7%)
Of which: direct own brands ¹	7,459	7,529	(0.9%)

Notes:

1. 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.
2. The reduction in in-force policies relates to the removal of Travel insurance cover from a partner's bank account proposition.

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, the industry in which the Group operates and the Group's approach to climate-related matters. 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, reduction in expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and, risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. 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 and/or they rely on assumptions that may or may not transpire to be correct. 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 the rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the Russian invasion of Ukraine;
- the policies and actions and/or new principles, rules and/or changes to, or changes to interpretations of principles, rules and/or regulations, of regulatory authorities and bodies (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rate or rates or made 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, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (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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