

This announcement contains inside information.



**Direct Line Group  
Capital Markets Day  
Changing Gears**

10 July 2024

Direct Line Insurance Group plc ("**DLG**") provides the following update in advance of its Capital Markets Day that will be held today at 1.00 pm BST in London. Highlights of the presentation include:

- We are announcing a refreshed strategy with the objective of establishing DLG as the customers' insurer of choice and delivering profitable growth.
- In Motor we aim to deliver technical excellence across the value chain and meet customers where they shop by launching Direct Line on Price Comparison Websites ("PCWs").
- Outside of Motor we'll make disciplined decisions on where we allocate our capital. We will focus on Home, Commercial Direct and Rescue, where we have the capability and opportunity to win, and exit or stop investing in OEM<sup>1</sup> affinity Motor partnerships and other personal lines businesses<sup>2</sup>.
- We reiterate our target of at least £100 million of gross run-rate cost savings by exit 2025<sup>3</sup>.
- We reiterate our target of a 13% Net Insurance Margin in 2026<sup>4</sup>.
- We are announcing a revised capital allocation framework and policy to pay around 60% of operating earnings<sup>5</sup> as a regular dividend.
- We expect our solvency capital ratio to build over time to support additional shareholder returns.

**Motor: Taking actions to drive sustained profitable growth**

We aim to deliver sustained, profitable growth in Motor<sup>6</sup> by focusing on all elements of the insurance value chain; pricing and underwriting, customer experience, claims and distribution. Further details on the actions we are taking to deliver technical excellence across the value chain will be included in today's presentation.

In addition, we will launch Direct Line on PCWs, extending the reach of one of the most recognised brands in the market into the channel where around 90% of customers prefer to shop.

This strategy is underpinned by a refreshed leadership team, who have a proven track record in delivering growth through PCWs.

Our focus on technical excellence combined with the opportunity to launch Direct Line on PCWs gives us confidence in our ambition to rejoin the front runners in UK motor insurance and drive sustained profitable growth.

## **Non-Motor: Building on our strengths in Home, Commercial Direct and Rescue**

Outside of Motor, we will focus our portfolio investment in the areas where we know we have the opportunity and capability to win and grow profitably.

In Home we will leverage new capabilities provided by our new platform and revamp the product suite to drive for growth. In Commercial Direct we are expanding our offering into underserved segments and in Rescue we are shifting our operating model by launching a fleet of our own patrol vehicles.

As we focus on these core areas, we have decided to exit or stop investing in OEM<sup>1</sup> affinity Motor partnerships and Pet, Travel and other personal lines businesses<sup>2</sup>.

## **Significant opportunity to reduce our cost base**

Our growth ambitions will be underpinned by our actions to reduce our cost base. We are confident in delivering at least £100m in gross run-rate cost savings by exit 2025<sup>3</sup> and narrowing the cost gap versus peers.

The savings are to be delivered across three key levers: technology, operations and demand, and simplification. We have over 50 cost initiatives identified, many of which are underway, and we see opportunity to go further once these are realised. Further detail on each of these initiatives is included in today's presentation.

As previously disclosed, the total cost to achieve these savings is expected to be around £165 million across 2024 and 2025, with a significant proportion funded through our existing capital expenditure expectations.

## **Re-iterating our net insurance margin target**

We believe our refreshed strategy and the actions we are taking across pricing, claims and costs, will deliver an additional 4 to 5 points of margin upside and therefore provide a clear path to deliver a 13% Net Insurance Margin in 2026<sup>4</sup>.

## **Strong returns for shareholders**

We expect the delivery of our financial targets to underpin attractive future returns for our shareholders. Our revised dividend policy will target a payout ratio of around 60% of post-tax operating profit<sup>5</sup> for the regular dividend, with any additional capital returns to be reviewed annually alongside our full year results.

In the medium term, we are targeting a solvency ratio of around 180%; however, in the short-term, as we execute the turnaround plan, we expect to maintain a solvency ratio above this level (2023: 197% solvency ratio).

Our current focus is on improving business consistency and performance to drive profit and growth. During this time, we will invest in high payback organic opportunities, for example the Group's cost saving programme, and plan to restart regular dividends. The Board will review the conditions it previously set to consider a restart of the regular dividend on an ongoing basis.

The combination of a strong starting solvency position, our pace of expected capital generation and the dividend policy should result in a growing solvency ratio over time, which should support additional opportunities for returns to shareholders.

**Adam Winslow, CEO, commented:**

"Today, we have set out our strategy and clear targets designed to position DLG as the customers' insurer of choice.

"Since joining DLG just over four months ago I have rigorously reviewed our business, and listened carefully to investors, customers, and employees. This work has deepened my belief in our strong foundations and excellent potential.

"Putting our strongest brand, Direct Line, on price comparison websites, where 90% of consumers shop, means we will be shaking up the motor insurance market once again.

"However, DLG is about more than just Motor, and we have ambitious plans to grow in Home, Rescue and Commercial Direct.

"Our refreshed strategy will be delivered by our new executive team, who have significant expertise in our core markets.

"The strategy and targets set out today signal our ambition and intention to grow our business and deliver strong returns for our shareholders."

**Presentation**

Management will host a presentation for investors and analysts at 1pm (BST) on Wednesday 10 July. Joining details are available on the Direct Line Group website:

<https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.html>

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the Company is Neil Manser, Chief Financial Officer.

**Notes**

1. OEM, original equipment manufacturer.
2. These areas represented around £160 million of gross written premium and associated fees in 2023, of which around £30 million was OEM affinity Motor partnerships.
3. The Group's total operating expenses, acquisition expenses and claims handling expenses, adjusted to exclude restructuring and one-off costs, commission expenses and costs associated with the Brokered Commercial business, Motability and By Miles.
4. Net insurance margin for ongoing operations, normalised for weather.
5. Operating profit from ongoing operations after finance costs, coupon payments in respect of Tier 1 notes and tax at the standard rate.
6. Motor including Motability.

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## 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", "ensure", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "vision", "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 may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group's results of operations, statement of financial position, financial condition, prospects, growth, net insurance margin, insurance service result, 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 which are contained in this document with respect to return on tangible equity, solvency capital ratio, net insurance margin, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in net 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:

- changes to law, regulation or regulatory approach following any change in government
- United Kingdom ("**UK**") domestic and global economic business conditions, and changes of a geo-political and/or macro-economic nature;
- the Trade and Cooperation Agreement between the UK and the European Union ("**EU**") regarding the terms 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's GIPP regulations and Consumer Duty regulations 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 war in Ukraine following the Russian invasion and/or the conflict in the Middle East involving Israel and Gaza;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of, principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates) and of 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, requirements, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards 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 obligation 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.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

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