

DIRECT LINE INSURANCE GROUP PLC

TRADING UPDATE FOR Q3 2020¹

ENCOURAGING TRADING PERFORMANCE, GOOD PROGRESS ON STRATEGIC TRANSFORMATION

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED:

“We are encouraged by our trading performance in Q3 where we saw a return to strong growth in Green Flag and Commercial and some improvement in Motor and Home own brands, particularly in the price comparison website channel as customer shopping activity started to recover. This progress is testament to the flexibility and commitment of our people who have been successfully navigating through the Covid-19 pandemic, delivering good operational progress, providing extra support for our customers and helping local communities.

“Our transformation continues to progress with the recent migration to a new mainframe platform and our trading and change teams are now working in a fully agile way. Both are a key part of our strategy to offer our customers better value and choice by unlocking our ability to be more innovative and enable us to move faster to market with our products. Direct Line and Churchill remain scheduled to start to roll-out on our new motor platform this year, albeit we are taking a more measured approach to implementation.

“Whilst still early in the consultation period, the FCA report into pricing practices has proposed significant changes to the way the market operates. As we outlined at our Capital Markets Day in 2019, we have been actively reviewing renewal prices over recent years. There will be uncertainty to navigate during the transition, however we believe that our market-leading brands and outstanding customer service, combined with our model of operating across multiple channels, are fundamental strengths meaning that we are well placed to deliver success in the future.”

Trading summary

	Q3 2020 £m	Q3 2019 ² £m	Change
Gross written premium			
Motor direct own brands	434.2	440.5	(1.4%)
Motor partnerships	13.0	17.3	(24.9%)
Motor	447.2	457.8	(2.3%)
Home direct own brands	112.8	111.7	1.0%
Home partnerships	43.8	46.9	(6.6%)
Home	156.6	158.6	(1.3%)
Green Flag Rescue	26.2	23.9	9.6%
Other Rescue and other personal lines	85.0	93.5	(9.1%)
Rescue and other personal lines	111.2	117.4	(5.3%)
Commercial direct own brands	44.4	39.5	12.4%
NIG and other	92.1	84.7	8.7%
Commercial	136.5	124.2	9.9%
Total Group	851.5	858.0	(0.8%)
Of which: direct own brands ³	617.6	615.6	0.3%
	30 Sep 2020	30 Sep 2019	Change
In-force policies	14,644	14,837	(1.3%)
Of which: direct own brands ³	7,443	7,253	2.6%

Financial highlights

- Motor own brand in force policies remained flat during Q3 2020 as shopping returned to pre-Covid-19 levels and retention normalised following the increase in Q2. Average premiums were lower primarily due to risk mix, arising from a reduction in new car sales and fewer young drivers entering the market, as well as modest market premium deflation. This led to a reduction in own brand gross written premium of 1.4% compared with Q3 2019.
- Motor damage severity was ahead of its long-term average as the repair industry responded to Covid-19 related factors such as longer repair times and additional cleaning requirements, however this was more than offset by lower claims frequency which remained below pre-Covid-19 levels.
- Home continued to demonstrate improved competitiveness on PCWs, growing own brand gross written premium by 1.0% compared with Q3 2019 and in-force policies by 1.5% during the quarter. This was offset by a 6.6% reduction in partnership gross written premium, the majority of which was due to the partnership schemes in run-off.
- Green Flag Rescue premium growth returned to pre-Covid-19 levels in Q3, increasing 9.6% compared to Q3 2019, demonstrating the brand's competitiveness as new business shopping increased. Overall, gross written premium in Rescue and other personal lines was 5.3% lower than Q3 2019, primarily due to reduced Travel premiums predominantly in the partnership channel.

- Commercial direct own brands delivered 12.4% growth in premiums in Q3 driven by a recovery in small to medium enterprise (“SME”) trading on the Direct Line for Business platform which reached a peak in July following the easing of lockdown restrictions. Commercial’s Churchill brand also delivered strong growth as it now trades across all four main PCWs, contributing to a 65% increase in gross written premium compared with Q3 2019. Our direct Commercial businesses were recently recognised at the National Insurance Awards as Direct Line for Business won Commercial Lines Insurer of the Year and the Churchill brand was awarded Growth Company of the Year.
- NIG and other delivered a strong quarter; gross written premium grew 8.7% in Q3 compared to Q3 2019, supported by growth across all categories as the book continued to benefit from improvements in Van pricing and its award-winning electronic trading platform.
- The Group estimates weather event claims as a result of the flooding in Q3 to be around £7 million in Home. In Commercial the weather event claims in Q3 were offset by favourable development of weather event claims in the first half. Total weather events for the Group are now estimated to be £38 million in 2020 to the end of Q3, compared to an annual budget of £64 million.

Strategic and operational highlights

- We have made good progress on our strategic transformation agenda, having migrated to a new mainframe platform and moved our trading teams to agile ways of working.
- Our people have adapted well to home working and service levels have remained strong despite moving operational capacity to support our Travel customers.
- In Q3 we launched a new mileage moneyback proposition in Direct Line Motor which offers customers a more flexible approach to managing the mileage on their car insurance.
- We are taking a more measured approach to the implementation of Direct Line and Churchill on our new motor platform although remain on track to start the roll-out later this year.

Financial Conduct Authority (“FCA”) General Insurance Pricing Practices

- On 22 September the FCA published its General Insurance Pricing Practices Final Report which sets out remedies seeking to improve outcomes for long-standing customers. With a consultation period running until 25 January 2021, it remains too early to outline the impact on the Group, however we believe our market-leading brands and outstanding customer service, combined with our diversified business model, are fundamental strengths meaning that we are well placed to deliver success in the future.

Covid-19 update

- There is no change to the Group’s net estimate of the impact of Covid-19 disruption on business interruption and travel claims of £10 million and £25 million respectively.
- We continue to support our customers, our people and society through a range of initiatives and our current estimate of the cost of this investment remains at around £90 million.

Outlook

- We are currently on track to deliver a combined operating ratio slightly below our target range of 93% to 95% in 2020, normalised for weather. We also reiterate our medium-term combined operating ratio target, however we acknowledge this will inevitably depend on the duration and uncertainties of the Covid-19 pandemic, the impact of Brexit, the FCA pricing practices report and any consequential impact on customer, market and regulatory approaches.
- We are reiterating our expense ratio target of 20% by 2023. As outlined at our half year results, our trajectory to get there has been impacted due to the impact of the Covid-19 pandemic.

For information: gross written premium for the 9 months to 30 September 2020

	9 months 2020 £m	9 months 2019 ² £m	Change
Gross written premium			
Direct own brands	1,213.1	1,212.1	0.1%
Partnerships	39.4	46.2	(14.7%)
Motor	1,252.5	1,258.3	(0.5%)
Direct own brands	306.4	305.4	0.3%
Partnerships	126.3	136.5	(7.5%)
Home	432.7	441.9	(2.1%)
Green Flag Rescue	65.4	61.9	5.7%
Other Rescue and other personal lines	255.9	272.0	(5.9%)
Rescue and other personal lines	321.3	333.9	(3.8%)
Direct own brands	123.0	113.1	8.8%
NIG and other	302.8	286.0	5.9%
Commercial	425.8	399.1	6.7%
Total Group	2,432.3	2,433.2	-
Of which: direct own brands	1,707.9	1,692.5	0.9%

For further information, please contact

PAUL SMITH
INVESTOR RELATIONS DIRECTOR
Tel: +44 (0)1651 831756
Mobile: +44 (0)7795 811263

LISA TREMBLE
GROUP CORPORATE AFFAIRS AND SUSTAINABILITY DIRECTOR
Tel: +44 (0)1651 834211
Mobile: +44 (0)7795 234801

Notes:

1. Direct Line Group's Trading Update relates to the three months and nine months ended 30 September 2020 and contains information to the date of publication.
2. 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.
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 under the Direct Line for Business and Churchill brands.

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 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 reduction, 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 outcome of discussions between the UK and the European Union ("EU") regarding the terms, following Brexit and the end of the transition period, of any future trading and other relationships between the UK and the EU;
- 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.

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.

LEI: 213800FF2R23ALJQOP04