



Climate Change Action
Report 2021

Taking action to deliver
a greener future

A commitment to action

“We aim to protect our business from the impact of climate change and give back more to the planet than we take out.”



Our Purpose is to help people carry on with their lives, giving them peace of mind now and in the future. It guides our customer approach. It's also how we think about tackling climate change because the next generation will rightly want to know we did everything we could to find lasting solutions.

We aim to protect our business from the impact of climate change and give back more to the planet than we take out. It's about assessing the risks to our business, understanding where the most carbon intensive areas are, how we can reduce emissions and also incentivising customers to make sustainable choices.

Despite the complex issues we need to solve, I'm optimistic about what we can achieve because colleagues have stepped up to the challenge with resolve and commitment. Right across the business we are now innovating and making changes that can have an impact.

You can see it behind our decision this year to join the Race to Zero - committing to set Science-Based Targets to reduce our emissions based on a 1.5 degrees pathway. If the science is telling the world to keep temperature increases to not more than 1.5 degrees above pre-industrial levels, then our actions should mirror that.

But I'm also honest that committing to set ambitious climate change targets is the easy thing to do. Of far more importance are finding

the practical measures to reduce emissions because that's how to build confidence.

This action report hopes to do this, which is why I'm delighted with the breadth of initiatives now underway. It's a commitment to action reflecting the reach of our business - we have millions of customers, spend millions in our supply chain each year and our investment decisions can influence the assets we hold.

And as a major motor insurer we are determined to make it easy for customers to insure electric vehicles, while aiming to fix them in the most energy efficient repair network in the UK. That's why our new EV proposition for Direct Line customers to help make electric easy is such an exciting development.

My thanks go to my colleagues who day in day out are working to turn a desire to tackle climate change into tangible action. While we cannot claim to have identified solutions to every problem yet, we are creating a platform that will ensure our customers and our business can both contribute to and benefit from the transition to a greener future.

A handwritten signature in black ink, appearing to read 'Penny James'. The signature is stylized and fluid.

Penny James
Chief Executive Officer

Taking action to deliver a green future

A race to find solutions

1. Disclose to track progress

2. Commit to tangible actions

3. Offset while we reduce

We view the climate emergency as a race to find solutions. Across the business we are focused on climate risk mitigation and playing our part in accelerating the transition to a low carbon future. There are three steps to our plan.

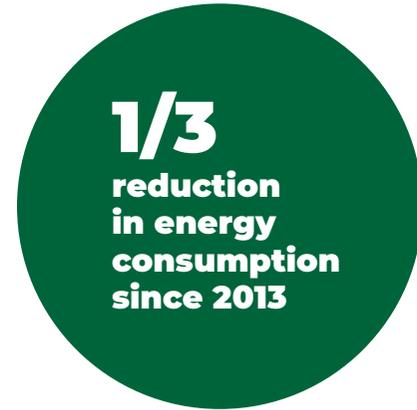
Step 1: Disclose to track progress

We have done a lot of work to understand where the most carbon intensive areas of our business are because only by understanding and reporting our carbon footprint can we find solutions.

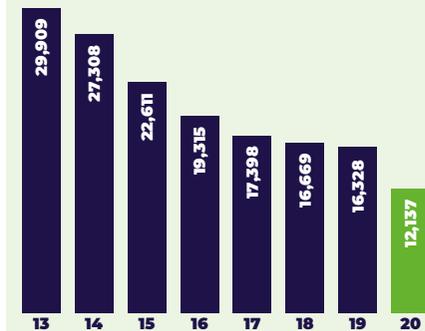
Our track record is good, we have:

- Reduced our energy consumption by a third since 2013.
- Procured 100% renewable electricity for our operations since 2014.
- Diverted 100% of our office waste from landfill.

We now want to go further, which is why we report our office, accident repair centre and supply chain emissions to guide our carbon reduction strategy.



Greenhouse gas emissions (tCO₂e)



Energy consumption (kWh)

	2020
Electricity	16,669,842
Gas	21,699,765
Total	38,369,607

Taking action to deliver a green future continued

Step 2: Commit to tangible actions

Target setting

We have committed to set Science-Based Targets for Scope 1, 2 and 3 emissions via the Science Based Targets initiative (SBTi) and this year joined the Race to Zero because we recognise our role in taking a leadership position as we reduce emissions. It means we will set targets in line with a 1.5°C emissions scenario where we are aiming to achieve net zero emissions by 2050 at the latest.

1. **Disclose to track progress**

2. **Commit to tangible actions**

3. **Offset while we reduce**

As we work to set targets, the most carbon intensive areas of our business – our accident repair centres, supply chain and investments – are already starting to put in place plans.

Establishing Strategic Management Actions

Alongside target setting we have also established the following Strategic Management Actions which business areas are now prioritising:

- **Electric vehicles** – improving our capability and understanding to support the transition to EVs.
- **Supply chain** – implementing a Supply Chain Sustainability Programme to engage and influence suppliers.
- **Flood resilience** – influencing policy makers on the importance of flood defences and shaping thinking around resilient repairs.
- **Underwriting footprint** – evaluating the impact of climate change on our underwriting footprint so that we can manage risks to our business and help inform strategic decision-making.

Our approach in action

All of our rescue recovery trucks at our Birmingham Auto Services site are now running off hydrogenated vegetable oil (HVO). This test and learn project is aiming to reduce our well-to-wheel carbon emissions from diesel by more than 80%. If successful we plan to roll out this alternative fuel across other Auto Services sites.

Read more about DLG Auto Services on page 7



Taking action to deliver a green future continued

Step 3: Offset while we reduce

While we enhance our emission reduction strategy and set Science-Based Targets, we committed to becoming a carbon neutral business by offsetting in 2020. Between November 2020 to November 2023, our plan is to offset those emissions we can't yet avoid through projects that cut carbon emissions whilst also delivering tangible benefits to local communities and environments in three countries.*

* By offsetting Scope 1 and 2 emissions as well as the elements of our scope 3 emissions under our direct control.

1. **Disclose to track progress**

2. **Commit to tangible actions**

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Our offsetting projects



Water filters, Kenya

Our funding is supporting the distribution of safe water filters for families. As well as delivering health impacts, the project also reduces the need for people to boil water to make it safe to drink, which requires the burning of unsustainable energy sources such as wood or charcoal. This reduced reliance on fuel reduces family expenditure and reduces pressure on forests, as well as cutting carbon emissions.



Clean cookstoves, Bangladesh

Less than 20% of Bangladeshi households have access to clean cooking, instead using traditional "three-stone" fires, contributing to approximately 49,000 premature deaths a year. Our funding is supporting entrepreneurs to produce, manufacture and distribute the "bondhu chula", a clean cookstove designed for an efficient burn to reduce fuel use.



Rainforest protection, Brazil

Our funding is supporting efforts to prevent unplanned deforestation across 350,000 hectares of the Portel micro region, through training and educating local communities in alternative agroforestry methods. By opening up new economic opportunities, the project is reducing slash and burn agriculture, which has been one of the largest contributors to deforestation. The project is also providing access to official land titles for native families and is protecting more than 30 vulnerable species.

Group emissions

We believe transparency can guide the business in making targeted interventions as part of our carbon reduction strategy. Our 2020 progress against our new 2019 baseline represents our most transparent emissions reporting to date, highlighting the impact of Covid on our operations, such as increased home working and fewer insurance claims, that influenced our supply chain emissions. We continue to break out our Scope 1 and Scope 2 emissions into separate performance figures across our office sites and accident repair centres and disclosed a Scope 3 footprint, with greater clarity of the activities under our direct control, as well as our supply chain emissions. Emission results reported below are all related to UK operations.

Definitions

Scope 1: This covers direct emissions we contribute to the atmosphere. For example, our office sites throughout the U.K. using gas boilers, the paint booths in our Auto Services sites currently relying on gas powered processes and our fleet vehicles.

Scope 2: These are indirect emissions. They are emissions associated with the production and transmission of energy we eventually use as a company across our office and Auto Services sites. For example, the production of the electricity we buy to heat and cool our buildings generates emissions which we are accountable for.

Scope 3: These are indirect emissions that occur in the value chain to support our company operations. For example, employee commuting, activities related to the disposal of waste and the goods and services we purchase to fulfil customer claims as part of our supply chain. It will also include our investment portfolio which we are currently evaluating as we work to set Science-Based targets.

Scope 1	2020		2019 baseline	
Office sites	1,432		1,881	
Auto services	6,819		7,838	
Total (tCO₂e)	8,251		9,719	
Scope 2	2020		2019 baseline	
	Location-Based ¹	Market-Based ¹	Location-Based ¹	Market-Based ¹
Office sites	2,176	0	4,516	0
Auto services	1,710	0	2,093	0
Total (tCO₂e)	3,886		6,609	
Total Scope 1&2 (tCO₂e)	12,137		16,328	
Of which: office sites (tCO ₂ e)	3,608		6,397	
Of which: auto services (tCO ₂ e)	8,529		9,931	
Scope 3 emissions under our direct control	2020		2019 baseline	
Fuel and energy related activities	2,332		2,465	
Waste generated in operations	413		1,245	
Business travel – air travel	198		928	
Business travel – hotel night stays	75		469	
Business travel – rail	63		410	
Employee commuting ²	1,450		4,599	
Upstream leased assets ³	63		193	
Upstream transportation and distribution of auctioned vehicles	625		912	
Total (tCO₂e)	5,219		11,221	
Total emissions under our direct control (tCO₂e)⁴	17,356		27,549	
Scope 3 – supply chain	2020		2019 baseline	
Total procured goods and services (tCO₂e)⁵	144,114		249,929	
Direct Line Group carbon footprint (operational control)	2020		2019 baseline	
Total (tCO₂e)	161,470		277,478	
Of which: under our direct control ⁴	17,356		27,549	

Notes:

- Figures for Scope 2 use standard location-based methodology. We follow GHG Protocol to disclose both location and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based results are nil.
- Employee commuting is based on UK national averages, not actual individual methods of transport of Direct Line Group employees commuting. This data is not currently tracked.
- Upstream leased assets refer to leased office space locations where Direct Line Group does not directly control the energy provision as it is included in the service agreement.
- Total of Scope 1&2 emissions and Scope 3 emissions under our direct control.
- In accordance with the GHG Protocol under which we report, the following are excluded from the total:
 - operational control activities already detailed under 'Scope 3 emissions under our direct control';
 - cash payments to customers or other insurance companies / legal firms as compensation;
 - intragroup transfers between our operating companies for financial accounting purposes as the actual purchase of goods and services to our third party suppliers is already captured; and
 - reinsurance costs to third party reinsurers as this is a financing transaction.

DLG Auto Services

Direct Line Group writes 4 million in-force motor insurance policies, and customers are supported by 22 Auto Services repair centres throughout the UK. We have one of the largest insurer-owned body shop businesses in the UK, and operate a partnership network with other body shop suppliers around the country.

As a major UK motor insurer we believe our 'green' USP should be to insure and fix electric vehicles, while aiming to do this in the most energy efficient repair network in the UK.



Our Auto Services are fundamental to our claims and supply chain operation, but we also recognise they are one of the most carbon intensive areas of the business. We are exploring a range of solutions to embed our environmental goals as part of our emissions reduction strategy:



Moving away from reliance on gas powered repair processes

Paint booths that currently rely on gas could be switched to electricity derived from renewable sources. We will trial this in our Birmingham site.

Using alternative fuels

Testing the viability of alternative fuels, such as hydrogenated vegetable oil (HVO), to power recovery trucks which play an important part in servicing customer motor claims.

Taking advantage of innovative products

Working collaboratively with commercial partnerships can realise environmental benefits. For instance, new paint technologies might reduce or remove the need to cure paint used on vehicles, thereby reducing energy consumption.

Energy efficient lighting

Introducing LED lighting is more energy efficient and is preferred by our technicians who can see jobs more clearly. Our Weybridge site is enabling energy savings of up to 60% and a reduction in maintenance costs over a projected lifespan of up to 10-20 years.

Green parts

Offering customers the option of 'green' parts could reduce the need for new replacement parts. It could also provide confidence about what can be recycled from salvage operations if motorists select this option when fitting parts to their vehicle.

Working with our supply chain

Our influence can extend far beyond our direct operations. We understand where the emissions sit in our supply chain and recognise the importance of publishing them to assist transparency and accountability.

We are using our established relationships and purchasing capabilities through procurement to mitigate our risks by seeking to reduce the emissions in our supply chain. The Group's Ethical Code already sets out our expectations of suppliers that they should support a precautionary approach to environmental challenges, promote greater environmental responsibility and encourage the development of environmentally friendly technologies.

We are now going one step further by launching our **Supply Chain Sustainability Programme** outlining our plan for the next ten years. We recognise this will be a gradual process but by acting now we can work with suppliers by signalling our expectations so that we can make the transition to a pathway consistent with a 1.5 degrees emissions scenario.

Supply Chain Sustainability Programme

Our approach means:

- **Engaging** our largest emitting suppliers to encourage them to sign up to SBTi targets or an equivalent.
- **Requesting** information on what efforts firms have made to measure their carbon footprint across scopes 1, 2 and 3 and their plans to reduce emissions, including targets.
- **Changing** our sourcing approach on appropriate contracts by introducing a sustainability rating that will increase over the next ten years, which could exclude prospective suppliers if they have no plans to reduce emissions.

Our investments

We will include our investment portfolio as part of our commitment to set Science-Based Targets. We are evaluating our Investment portfolio but have already set the following targets to guide our approach:

- 100% of our portfolio will be net carbon neutral by 2050
- Corporate bond portfolios are to have a 50% reduction in weighted average greenhouse gas emission intensity by 2030
- A preference for companies with carbon reduction targets approved by the Science Based Targets initiative
- A preference for companies with at least a 2°C carbon performance alignment with the Transition Pathway Initiative
- The exclusion of any companies with a carbon transition score indicating assets could be economically stranded
- The exclusion of any mining companies that generate >5% of revenues from thermal coal production and electricity generators that derive >5% of revenues from thermal coal power generation (unless, in either case, the company has an approved Science Based Targets initiative plan)
- The exclusion of any companies that are developing new thermal coal mines or coal burning power plants
- Ensuring all of our investment-grade corporate bond portfolios maintain an average MSCI ESG rating of 'AA'

In setting Science-Based Targets, we recognise that some of the existing investment portfolio targets may need to be amended, or new targets added, in order to meet the criteria set and obtain approval.

Our approach in action

Making electric easy

Our Direct Line brand is working to make electric easy for our motor insurance customers, that's why we are offering all new business customers access to a bundle of electric vehicle essentials as well as insurance that covers batteries and charging cables. The bundle includes discounted access to public and community charging, home charger installation, help with grants and discounted parking for electric vehicles. Our customers also benefit from our repair expertise via our network of body shops.



One bundle per Direct Line motor policy, available to new customers only who buy between 28/10/2021 and 31/10/2022. Free bundle provided by Zoom EV for 12 months from activation and validation of Zoom EV account.

Preparing for an electric vehicle future

We are continuing to ramp up training for technicians, upskilling them in electric vehicle repair because the requirements are different to traditional vehicles. We are also installing electric charging points across sites to promote public confidence in the electric transition.



Giving back to the planet

We recognise our role in preserving biodiversity in the UK. This year we announced a partnership with the nature recovery charity Heal, providing a £3 million loan facility that can support the purchase of their initial two sites.





Direct Line Insurance Group plc[®]

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