Motor

Performance summary

–

In-force policies grew by 9.0% as our partnership with Motability began in September 2023. Direct own brand policy count reduced by 10.2%.

–

Gross written premium grew by 42.9%.

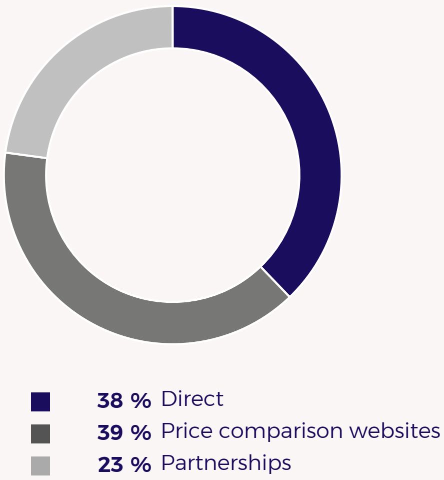
–

Operating loss of £319.6 million reflects the earn through of below target margin business written in 2022 and the first half of 2023.

Financial summary

	2023 £m	2022 £m
In-force policies (thousands)	**4,181**	3,836
Of which:		
Direct own brands[1]	**3,373**	3,756
Partnerships	**808**	80
Gross written premium[2]	**2,047.8**	1,432.7
Of which:		
Direct own brands[1]	**1,575.7**	1,398.5
Partnerships	**472.1**	34.2
Operating loss[2]	**(319.6)**	(64.8)
Loss before other finance costs	**(274.4)**	(252.3)
Net insurance margin[2]	**(21.1%)**	(4.8%)
Net insurance claims ratio[2]	**95.5%**	79.6%
Current-year attritional net insurance claims ratio	**86.7%**	79.9%
Prior-year reserves development ratio	**8.8%**	(0.3%)
Net acquisition ratio[2]	**5.7%**	5.6%
Net expense ratio[2]	**19.9%**	19.6%

Gross written premium by channel



Notes:

1. Direct own brands include in-force policies under the Direct Line, Churchill, Darwin, Privilege and By Miles brands.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
3. See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.

Motability: Welcoming over 700,000 customers

We welcomed over 700,000 new customers through our Motability partnership in September 2023 after nearly two years of preparation. Forecast to deliver around £800 million of gross written premium annually, it is a great strategic partnership but also brings significant other benefits including ongoing repair insights gathered from working on their fleet of modern vehicles and the opportunity to learn from a new team of colleagues skilled in supporting vulnerable customers.

The Motor result was adversely affected by the earn through of below target margin policies which were written in 2022 and the first half of 2023. The Group has taken significant pricing and underwriting actions and therefore believes it has been underwriting consistent with a net insurance margin of above 10% for the majority of the second half of 2023.

In-force policies and gross written premium and associated fees

In response to market wide claims inflation, the motor market experienced significant price inflation during 2023. Market average premiums increased by around 25%[1] which led to an increase in customer shopping and a reduction in market retention rates. The Group applied significant rate increases across its own brand portfolio during the year which delivered an increase in own brand average premiums of 28%[2]

The Group's actions to improve profitability led to an increase in direct own brand gross written premium and associated fees of 12.7% compared with 2022 despite in-force policies reducing by 10.2% over the period. Policy count loss was greatest in Q3 as rate increases worked through and decelerated during Q4, as new business competitiveness and retention rates improved. Following the commencement of the partnership with Motability, total Motor gross written premium and associated fees grew by 42.9% compared with 2022 and in-force policies grew by 9.0% over the period.

Underwriting

Market wide claims inflation remained a feature during 2023 although trends stabilised in the second half of the year. In the first half our view of 2022 severity inflation deteriorated, due to repair inflation and high levels of total losses arising from industry repair backlogs.

In the second half, we reduced repair times across the network and used car prices began to deflate whereas inflation persisted in the cost of parts and labour rates. These trends resulted in attritional claims severity inflation of around 9% in 2023, in line with our expectation of high single digits. Outside of damage, in 2023 we experienced a higher number of large bodily injury claims

Prior year reserves were strengthened by £138 million in 2023 primarily reflecting a combination of increased damage costs from industry backlogs in the first half of the year and costs associated with the remediation for the Motor total loss past business review.

In 2024 we expect attritional inflation to remain in high single digits.

Net insurance margin and loss

These factors delivered a higher net insurance claims ratio in 2023, with an increase of 15.9pts compared with 2022. However, the significant pricing actions taken throughout the year began to come through in improved margins in the second half of 2023, and together with the new Motability partnership, delivered a 5.8 percentage point improvement in the current year net insurance claims ratio compared with the first half of 2023.

Overall, the net insurance margin was minus 21.1% and the operating loss was £319.6 million in 2023.

Loss before other finance costs

Loss before other finance costs increased from a loss of £252.3 million in 2022 to a loss of £274.4 million in 2023 due to the factors described above.

Notes:

1. Source: ABI motor premium tracker as at Q4 2023.
2. Average premium and rate figures quoted relate to Motor direct own brands excluding the By Miles brand.

Home

Performance summary

–

Total in-force policies 2.3% lower at 2.4 million. Direct own brand policies were 1.5% lower at 1.7 million.

–

Total gross written premium grew 6.4% to £551.5 million. Direct own brand gross written premium grew 7.2% to £408.8 million.

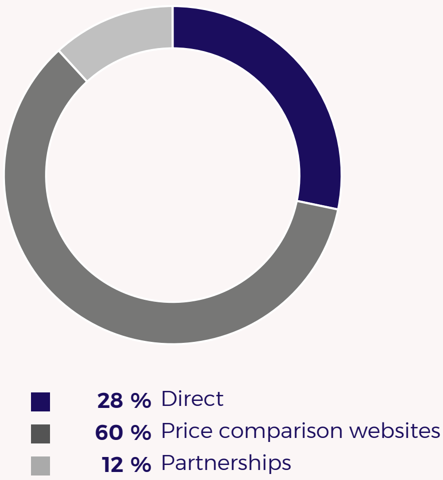
–

Operating profit increased to £52.4 million, primarily due to more benign weather in 2023.

Financial summary

	2023 £m	2022 £m
In-force policies (thousands)	**2,444**	2,501
Of which:		
Direct own brands[1]	**1,706**	1,732
Partnerships	**738**	769
Gross written premium[2]	**551.5**	518.1
Of which:		
Direct own brands[1]	**408.8**	381.5
Partnerships	**142.7**	136.6
Operating profit[2]	**52.4**	0.9
Profit/(loss) before other finance costs	**71.7**	(30.7)
Net insurance margin[2]	**10.0%**	(0.8%)
Net insurance claims ratio[2]	**62.3%**	76.8%
Current-year attritional net insurance claims ratio	**59.2%**	57.7%
Prior-year reserves development ratio	**(1.8%)**	(3.2%)
Major weather events ratio	**4.9%**	22.3%
Net acquisition ratio[2]	**8.4%**	6.3%
Net expense ratio[2]	**19.3%**	17.7%
Normalised net insurance margin[2]	**4.2%**	11.0%

Gross written premium by channel



Notes:

1. Direct own brands include in-force policies under the Direct Line, Churchill and Privilege brands.
2. See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.

Supporting customers during the storms

We know extreme weather events are often when our customers need our support the most. In 2023 we introduced SMS messaging to make customers in vulnerable areas aware of approaching high-risk weather conditions and providing a link to enable them to register claims online where appropriate. To help ensure people could contact us quickly, we increased the number of colleagues available to take customer calls and delivered assistance on the ground with our Direct Line and Churchill vehicles visiting affected areas to help policyholders who were vulnerable or had damage to their homes.

Home continued to trade well in 2023, with growth in premium written and a low level of weather-related claims.

In-force policies and gross written premium and associated fees

Following challenging market conditions during 2022, the home market experienced increased pricing in 2023 with an estimated increase in market prices of 41%. This reflected increases in reinsurance costs alongside the inflationary pressures on escape of water claims from the severe freeze event in December 2022. These trends led to increased shopping in the market and enabled the Group to deliver a 42% increase in new business sales. The Group increased prices during 2023 to reflect our view of claims inflation and increased reinsurance costs, which resulted in average premium in direct own brands increasing by 12%. Retention remained strong across the period.

Overall gross written premium and associated fees increased by 6.4% compared to 2022, or 7.7% when adjusted to remove the impact of remediation. In-force policies reduced by 2.3% during the year, however own brands returned to growth in the fourth quarter.

Underwriting

Underlying claims trends for 2023 remained elevated, albeit in line with our expectations of mid- single digits. We experienced an increase in escape of water severity for claims received late in 2022 around the time of the December freeze event, which reduced prior-year reserve releases compared to 2022.

Despite a high frequency of named weather events in the year, weather-related claims at £25 million (2022: £119 million) were below our assumptions for the year demonstrating good underwriting management of flood exposure. The full year 2024 weather event claims assumption is £54 million and the impact of freeze and flood events in early 2024 is estimated at £22 million.

Net insurance margin and profit

These factors combined led to a 14.5pts improvement in the claims ratio to 62.3%, with lower weather claims more than offsetting the impact of reduced prior-year reserve releases. Normalised for the impact of weather and excluding prior-year reserve movements, the attritional claims ratio increased by 1.5 percentage points between 2022 and 2023, due to the impact of elevated inflation and 2022 benefiting from the earn through of premiums written prior to the introduction of the FCA's PPR regulations.

The net insurance margin was 10.0% with operating profit of £52.4 million. Excluding the impact of remediation, the net insurance margin was 12.1% ,and 6.3% when normalised for weather and remediation.

The planned rollout of our new Home platform in 2024 is intended to enable longer-term trading and product development opportunities.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £30.7 million to profit of £71.7 million due to the factors described above alongside higher net investment income.

Rescue and other personal lines

Performance summary

–

Rescue in-force policies reduced by 10.1% and gross written premium and associated fees fell by 3.0%.

–

Rescue operating profit of £47.6 million and net insurance margin of 29.0%.

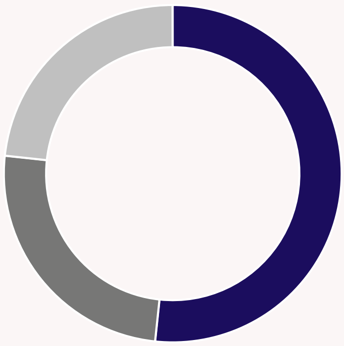
–

Operating profit of £0.4 million in other personal lines.

Financial summary

Ongoing operations[1]	2023 £m	2022 £m
In-force policies (thousands)	**2,172**	2,424
Of which:		
Rescue – ongoing operations	**1,965**	2,185
Of which Green Flag direct	**1,048**	1,106
Pet	**112**	128
Other personal lines – ongoing operations	**95**	111
Gross written premium and associated fees[2]	**265.7**	273.9
Of which:		
Rescue – ongoing operations	**137.3**	143.7
Of which Green Flag Direct	**85.1**	88.2
Pet	**66.5**	70.8
Other personal lines – ongoing operations	**61.9**	59.4
Operating profit[2]	**48.0**	60.1
Profit before other finance costs	**53.8**	52.7
Net insurance margin[2]	**15.6%**	19.8%
Net insurance claims ratio[2]	**57.0%**	52.3%
Current-year attritional net insurance claims ratio	**56.6%**	53.9%
Prior-year reserves development ratio	**0.4%**	(1.6%)
Net acquisition ratio[2]	**4.6%**	7.9%
Net expense ratio[2]	**22.8%**	20.0%

Gross written premium and associated fees by product



52 % Rescue
25 % Pet
23 % Other personal lines

Notes:

1. Ongoing operations – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
2. See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.

Green Flag: delivering customer satisfaction

Green Flag was once again ranked as one of the top 20 brands for customer service in the UK, in the Institute of Customer Service Customer Satisfaction Index, reflecting how the brand continues to develop and enhance its offer to meet the evolving needs of the modern motorist. We rolled out a new fleet of branded patrol vehicles in 2023 and focused on broadening the availability of roadside products, such as batteries and tyres, to help get customers moving more quickly.

Overall Rescue and other personal lines delivered strong margins with a net insurance margin of 15.6%, providing £48.0 million diversified operating profit for the Group. Gross written premium was broadly flat during the year, with modest reductions in Rescue and Pet, partially offset by growth in our medium to high net worth business, UK Select. Operating profit of £48.0 million was lower than the prior year primarily due to higher claims costs and prior year strengthening in other personal lines.

Rescue

Rescue's gross written premium from ongoing operations was 4.5% lower in 2023 with in-force policies reducing by 10.1%. The largest fall was in Linked where Rescue is sold alongside a Motor policy.

Rescue experienced increases in claims frequency and modest claims inflation which was mitigated by self-help actions taken across its managed network. Green Flag increased its prices towards the end of 2023 which delivered additional premium with minimal impact on sales or retention.

Overall, Rescue's ongoing operations delivered operating profit of £47.6 million in 2023 (2022: £53.7 million), with an attractive net insurance margin of 29.0%. A fleet of Green Flag branded patrol vehicles is being rolled out following a successful pilot. This aims to help mitigate the impact of claims inflation and offer new revenue opportunities through vehicle related sales at the roadside.

Other personal lines

Other personal lines is made up of Pet, Travel, Creditor and Select, our insurance targeted at mid- to high-net worth customers. Pet is the largest product within Other personal lines. Pet gross written premiums fell 1.4% as in-force policies reduced by 14.4%. Overall Other personal lines made an operating profit of £0.4 million in 2023.

Profit before other finance costs

Profit before other finance costs increased by £1.1 million to £53.8 million due the factors set out above.

Commercial

Performance summary

–

In force policies grew by 1.4%.

–

Gross written premiums grew by 10.1%.

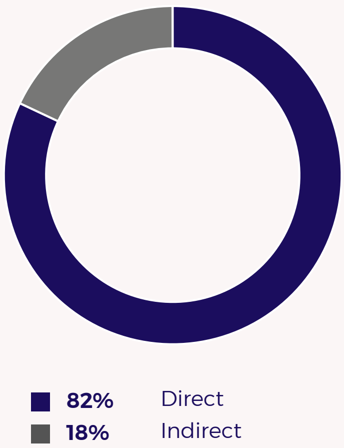
–

Operating profit increased to £29.7 million with a net insurance margin of 13.1%.

Financial summary

	2023 £m	2022 £m
In-force policies[1] (thousands)	**645**	636
Gross written premium[2]	**241.0**	218.9
Operating profit/(loss)[2]	**29.7**	(2.6)
Profit/(loss) before other finance costs	**34.4**	(10.1)
Net insurance margin[2]	**13.1%**	(2.7%)
Net insurance claims ratio[2]	**57.9%**	66.9%
Current-year attritional net insurance claims ratio	**49.8%**	69.3%
Prior-year reserves development ratio	**7.1%**	(5.0%)
Major weather events ratio	**1.0%**	2.6%
Net acquisition ratio[2]	**14.1%**	19.0%
Net expense ratio[2]	**14.9%**	16.8%
Normalised net insurance margin[2]	**11.4%**	(2.4%)

Gross written premium by channel



Notes:
1. Commercial includes in-force policies for Direct Line for Business and Churchill brands.
2. See glossary on pages 261 to 264 for definitions and appendix A – Alternative Performance Measures on pages 265 to 268 for reconciliation to financial statement line items.

Assisting landlords in an emergency

An increasing number of landlords are choosing to insure with us. Among the products we offer is Landlord Emergency cover, a callout service within four hours for a number of insured emergencies, including failure of electricity or heating. This year we have reduced average wait times for those using this service, to ensure tenants are supported when they need emergency assistance.

Following the sale announced in 2023, the brokered commercial business is reported as being in run-off. Results for prior periods have been restated.

Commercial continued to trade well in 2023, maintaining its premium growth whilst delivering strong margins. Commercial sells SME cover under the Direct Line for business and Churchill brands, both direct to customer and through price comparison websites. Landlord insurance is the largest product by premium followed by Van.

In-force policies and gross written premium and associated fees

Through a combination of both policy count growth and premium rate increases, Commercial delivered policy growth of 1.4% and gross written premium growth of 10.1% during 2023.

Both Direct Line and Churchill delivered strong premium growth across all products in 2023, Direct Line grew policy count by 1.3% and premiums by 7.0% while Churchill delivered 23.7% premium growth and policy count was stable.

In Landlord, whilst new business volumes were lower than 2022, it was a positive market backdrop, against which the Group was able to expand its footprint in multi property policies, delivering gross written premium growth of 14.5% and policy count growth of 3.4%.

In Van, in response to elevated inflation, average premiums increased across the market during 2023, driving an increase in new business sales and reductions in market retention rates. The Group focused on maintaining margins, with significant rate increases delivering gross written premium growth of 5.1%, alongside a reduction in policy count of 6.0%.

Underwriting

Commercial's claims ratio improved by 9.0pts to 57.9% during 2023. Alongside relatively benign weather conditions, the focus on maintaining margins more than offset a £15 million prior year reserve strengthen, predominantly driven by the impact of elevated claims inflation in Van.

Net insurance margin and profit/(loss)

Overall, these factors combined led to a net insurance margin of 13.1% (2022 minus 2.7%) with operating profit of £29.7 million. Normalised for weather the net insurance margin was 11.4%.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £10.1 million to profit of £34.4 million due to the factors described above alongside higher net investment income.

Brokered commercial business and run-off partnerships

The Group's ongoing operations result excludes the results of the brokered commercial business, that it sold to RSA Insurance Limited in 2023, and the Rescue and other personal lines partnerships that the Group first excluded from its 2022 results. Run-off partnerships comprises personal Rescue and Travel packed bank account business.

Brokered commercial business

	2023 £m	2022 £m
In-force policies (thousands)	**286**	277
Gross written premium and associated fees	**665.8**	530.4
Operating profit	**27.6**	62.9
Net insurance margin[1]	**3.1%**	10.6%
Net insurance claims ratio[1]	**49.4%**	45.5%
Net acquisition ratio[1]	**26.6%**	26.4%
Net expense ratio[1]	**20.9%**	17.5%

On 6 September 2023 we announced the sale of our brokered commercial business and we are presenting the results for this business as a separate segment.

The transaction involved the sale of the Group's brokered commercial business and associated partnerships through a combination of reinsurance and a form of renewal rights transfer. As a result, with effect from 1 October 2023 (the risk transfer date), new business moved to RSA. The Group retains the back book of policies and will manage these policies until they run off. The formal separation and operational transfers are expected to start in the first quarter of 2024, with subsequent transfers of outstanding elements of the overall brokered commercial insurance business to follow.

2023 results

Gross written premium and associated fees were £665.8 million (2022: £530.4 million). The operating profit relating to the brokered commercial business was £27.6 million (2022: £62.9 million).

Note:

1. See glossary on pages 261 to 264 and Appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.

Run-off partners

	2023 £m	2022 £m
In-force policies (thousands)	**2,224**	2,188
Gross written premium and associated fees	**150.1**	124.4
Operating loss	**(29.5)**	(10.8)
Net insurance margin[1]	**(19.6%)**	(8.7%)
Net insurance claims ratio[1]	**102.9%**	89.7%
Net acquisition ratio[1]	**1.5%**	1.8%
Net expense ratio[1]	**15.2%**	17.2%

In our FY 2022 results we disclosed that we planned to reduce our exposure to packaged bank accounts where they do not meet target levels of return and are no longer required for operational scale, in order to improve our capital efficiency, and we are presenting the results for this business as a separate segment.

Rescue packaged accounts

Our contract with NatWest Group ended in December 2022 and was fully run off by the end of 2023. This partnership represented around 1.1 million in-force policies.

Travel packaged accounts

Our partnerships with NatWest Group and Nationwide Building Society are due to expire in 2024. Together, these travel partnerships represent around 2.2 million in-force policies.

On 31 January 2024 our contract with NatWest ended and all business was transferred to the new provider. The Nationwide contract will end on 30 April 2024 although policy upgrades will continue to be underwritten by the Group until 30 April 2025.

2023 results

Gross written premium and associated fees were £150.1 million (2022: £124.4 million). The operating loss relating to run-off partnerships in 2023 was £29.5 million (2022: £10.8 million).