



Danuta Gray
Chair of the Board

Chair's statement

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We have entered 2024 with a more resilient business, well positioned to achieve our mission of being brilliant for customers every day.

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Dear Shareholders,

2023 has been a challenging year for the Group, but a year in which I believe we have delivered on some important commitments to put the Group on a more stable footing.

We have restored capital resilience and have continued to adjust our Motor insurance premiums to mitigate the effect of claims inflation, with the result that we are now writing Motor business profitably. Our non-motor businesses performed well in 2023.

The sale of our brokered commercial business to RSA Insurance Limited represents a significant milestone for the Group. It reflects our intention to leverage the full potential of our personal lines and commercial direct businesses in which we have well-recognised brands and serve over nine million customers.



Welcoming our new CEO, Adam Winslow

In August 2023, we were delighted to announce that Adam Winslow was to be appointed as Chief Executive Officer of the Group, subject to regulatory approval.

The Board conducted an extensive search and Adam stood out for his strategic understanding of the sector, outstanding track record of leading high performing businesses and his focus on driving operational excellence to consistently meet customer needs.

Adam has deep expertise in the UK general insurance market and significant leadership experience, spanning two decades across personal and commercial lines insurance and, throughout his career, his commitment to delivering for customers has been a clear focus, as has his energy and passion as a leader.

Adam Winslow, Chief Executive Officer designate, commented: "Direct Line Group is one of the UK's leading insurers with some of the most recognisable brands in the retail and commercial market. It's a privilege to be invited to lead the Group into the future, particularly given its rich heritage and passion for serving its millions of customers.

"The UK insurance industry is dynamic and always evolving. Delivering great customer service relies on strong strategic vision and the operational capability to execute quickly across a variety of distribution channels. I'm looking forward to working with my new colleagues who share my determination for driving growth, delivering for customers and creating long-term shareholder value."

Adam became the Chief Executive Officer on 1 March 2024 and will join the Board on 21 March 2024.

Dividend and capital management

Following a challenging 2022, we took decisive action in 2023 to restore the capital resilience of our business. In January, we entered into a three-year quota share reinsurance programme and, in September, agreed the sale of the Group's commercial brokered business. We exit 2023 with a strong solvency position above our agreed risk appetite.

The Board is acutely aware of the importance of dividends to our shareholders. At the time of our interim results in September we announced our aim to restart dividends subject to two conditions: the recovery of our solvency ratio to the upper end of our risk appetite range; and a return to organic capital generation in Motor.

We have made good progress towards meeting these conditions with a pre-dividend solvency ratio of 201% as at the end of 2023 and increasing confidence in the profitability of the Motor business we have written in the second half of 2023. Reflecting their increased confidence, the Board is, therefore, recommending a final dividend of 4.0 pence per share for 2023. We will continue to keep this under active review throughout 2024 and provide an update at the interim results.

I acknowledge that our shareholders would like us to resume the payment of dividends as soon as possible, but equally that they would like us to prioritise the strengthening of the business for long-term stability.

Board and leadership

In early 2023 Penny James stepped down from the Board as CEO and Jon Greenwood agreed to serve as Acting Chief Executive Officer whilst we conducted a search for a permanent successor.

We were delighted to announce, in August 2023, that Adam Winslow would be joining us as our new Chief Executive Officer. He joined the Group on 1 March and his appointment to the Board will take effect on 21 March 2024. Adam brings with him a wealth of experience gained from a successful career in the insurance industry, most recently leading Aviva's UK and Ireland general insurance business. Adam is committed to delivering for customers, creating value for our shareholders and is a passionate and energetic leader who shares the Group's values and will lead the continued transformation of the business.

Jon Greenwood will step down into a senior executive role following a handover to Adam. I would like to thank Jon for his hard work and commitment through 2023, during which he led the organisation in taking the critical action to restore its capital resilience and profitability.

During the year we welcomed Mark Lewis and David Neave to the Board as independent Non-Executive Directors. Mark, a former Chief Executive of MoneySupermarket.com Group, is contributing his deep understanding of the regulated aggregator marketplaces in which our brands operate, as well as his experience of digital marketing strategy and improving multi-channel customer experience in retail and financial services. David, whose executive career spanned General and Life Insurance, broking and the legal and technology sectors, is contributing his deep understanding of general insurance to the Board's oversight of our core businesses.



At the end of 2023, Sebastian James stepped down as an independent Non-Executive Director, having served for over nine years. I would like to thank Sebastian for his energetic support of the Group and the Board, as well his leadership of the Sustainability Committee and his contribution to the work of the Board's other Committees.

On 20 March 2024, the Board approved the appointment of Carol Hagh as an independent Non-Executive Director with effect from 1 April 2024. Carol's career has encompassed financial services consultancy, insurance marketing strategy, customer strategy and executive search. She is a former Head of Spencer Stuart LLP's UK Insurance practice and is an independent Non-Executive Director of Chesnara plc. Carol will contribute her deep experience of customer-orientated business transformation, as well as her passion for diversity and inclusion.

Customers

During 2023, we have continued working hard to meet our customers' needs and to improve our customer outcomes-focused culture to serve them best in the future. We welcomed over 700,000 new customers under our ten-year partnership with Motability. This is a significant commercial partnership for the Group and enables us to leverage our repair and customer service capabilities, delivering significant scale benefits. In addition, the Group, launched our Direct Line Essentials Motor product, which offers customers a basic comprehensive product at enhanced value for money during the cost-of-living crisis, and completed the acquisition of By Miles, whose technology enables a pay-as-you-drive product to be offered to customers (see pages 41, 52 and 53 respectively.)

2023 also saw the FCA's Consumer Duty regulation coming into effect. The Board has been closely engaged in overseeing work to ensure that the Group was ready, with support from the Consumer Duty Champion, Tracy Corrigan. We continue to monitor initiatives aimed at ensuring the regulation is embedded into the culture of the organisation and that we deliver good outcomes and fair value for customers.

2023

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2024

We have entered 2024 with a more resilient business, well-positioned to achieve our mission of being brilliant for customers every day.

However, I must also acknowledge areas in which we did not perform as well as we would have liked for customers. During the year we announced that, following extensive consultation with the FCA, we would be undertaking two past business reviews relating to motor total loss payments and the implementation of the pricing practices regulation. Where things have gone wrong, we are committed to putting them right. We have worked hard to rectify the unintentional errors that occurred and ensure any lessons learned are embedded into control and process improvements. In total, we have provided for the cost of the total remediation of £150 million, which we consider to be final.

Culture

During the year, the Board intensified its oversight of culture, ensuring actions were taken to enable Direct Line to become a truly high performing and customer-centric organisation with a deeply ingrained awareness of the benefits of excellent risk management. This work included the delivery of a new performance management framework for our people; augmentation of operational measures to provide improved insights into culture change; and enhancements to our risk framework and controls and the tools we use to assess them. We have also developed new metrics to obtain insights into the drivers of customer outcomes and have augmented the role of the Customer and Sustainability Committee, which will meet more frequently to oversee the embedding of the Consumer Duty and how we deliver for our customers. More information on this work can be found on pages 54, 106 and 127.

People

Areas on which the Board focused in 2023 included driving high performance across all levels of the business and reviewing the Group's current leadership capability to ensure it meets the requirements of the future. In addition to assessing our current skills, we have actively recruited for future skills needs as well as implementing a more comprehensive talent assessment and development for our leadership group population, in partnership with Korn Ferry. This work commenced in Q4 2023, with all senior leaders immediately below Executive Committee level invited to take part in an Executive Leadership Assessment, the outputs of which will provide valuable insights and inform our group leadership development approach, aligned to a new leadership model in 2024. In addition to this, the new performance framework launched in 2023 is intended to equip and encourage our people leaders to improve the quality of their development and careers conversations with colleagues.

Recognising that economic conditions remain challenging for our people, we awarded a 5% pay increase to all colleagues, excluding senior management, from January 2023 and made a cost-of-living payment to colleagues on lower rates of pay.

Our company values were refreshed and simplified in 2023 to guide the way we work together to perform as a business and deliver for our customers. I was delighted that the Group was ranked in the Inclusive Top 50 UK Employers List for the third year running.

Planet

In 2022 we became one of the early personal lines general insurers in the UK to have Science-Based Targets approved by the Science Based Targets initiative, a key step in the journey towards our ambition of becoming a Net Zero business by 2050. During 2023, the Board oversaw the work and initiatives needed to help us make significant progress against these targets which we are reporting on for the first time. Initiatives included implementing the use of hydrogenated vegetable oil in our recovery vehicles at 95% of our Auto Services sites and providing clear mandates to our investment portfolio managers to reduce the impact of our investment portfolio. For more information, please see pages 61 to 65, 78 and 79.

Conclusion

As a result of the action we have taken during the year, I believe we have entered 2024 with a more resilient business, well-positioned to achieve our mission of being brilliant for customers every day. I know that our people have worked incredibly hard in a very challenging year and I would like to take this opportunity to thank them for their continued dedication and support. I would also like to acknowledge the intensive work done by the Board in 2023 and to thank my fellow Directors for redoubling their efforts in supporting the business. I believe, under the leadership of our new CEO, Adam, we are poised to realise the full potential of our technological investments and fantastic brands and to deliver good outcomes for all our stakeholders.



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