



# Mid-Year Highlights 2019



Privilege.



*Darwin.*

# Transformation on track, good financial performance



**PENNY JAMES**  
CHIEF EXECUTIVE OFFICER



I am pleased with the progress that we have made so far this year. We have delivered a good financial performance overall, benefitting from the breadth and diversity of our business. We have maintained our underwriting discipline in a highly competitive motor market and we delivered a strong result in Home, Commercial and Rescue. We have grown our interim dividend by 2.9% and reiterate our 2019 financial targets of a combined operating ratio of 93% to 95%, normalised for weather, and operating expenses of less than £700 million.

There remains much to do, but we are successfully removing costs from the business as well as making good progress on transforming the Group's IT systems, for example with the initial launch of our new Motor platform. These are designed to significantly strengthen our capabilities, to enable us to be more competitive and to enhance customer experience. We aim to use the faster and more flexible systems to increase the pace at which we transform the business and to enable us to capture the near- and long-term opportunities available to the Group.



# Results summary (unaudited)<sup>1</sup>

	H1 2019 £m	H1 2018 <sup>2</sup> £m Restated	Change
In-force policies (thousands)	14,830	15,326	(3.2%)
Of which: direct own brands <sup>3</sup> (thousands)	7,155	7,018	2.0%
Gross written premium	1,575.1	1,610.3	(2.2%)
Of which: direct own brands <sup>3</sup>	1,072.2	1,099.0	(2.4%)
Operating profit	274.3	305.5	(10.2%)
Combined operating ratio <sup>4</sup>	92.5%	92.9%	0.4pts
Profit before tax	261.3	292.8	(10.8%)
Return on tangible equity annualised <sup>5</sup>	20.9%	21.9%	(1.0pt)
Dividend per share – interim (pence) <sup>6</sup>	7.2	7.0	2.9%

	30 Jun 2019	31 Dec 2018 <sup>2</sup> Restated	Change
Solvency capital ratio post-dividends <sup>7</sup>	180%	170%	10pts

The Mid-year Highlights report is not intended to fulfil the Group's reporting obligations under International Accounting Standard 34 'interim Financial Reporting' as adopted by the European Union or under the Disclosure and Transparency Rules 4.2.7R and 4.2.8R. The Group's Half Year Report 2019 was released on 31 July 2019 and complies with IAS 34 and the Disclosure and Transparency Rules noted above. The Half Year Report 2019 can be accessed at: [www.directlinegroup.co.uk/half-year-report-2019.pdf](http://www.directlinegroup.co.uk/half-year-report-2019.pdf)

## Highlights

### Own brands in-force policies

**+2%**

Grew direct own brands in-force policies by 2.0%, demonstrating our diversified portfolio and pricing capabilities in competitive markets. Total in-force policies reduced by 3.2% primarily as a result of partnership exits announced in 2017.

### Operating expenses

**£363.0m**

Operating expenses of £363.0 million were £16.1 million lower than H1 2018 and the lowest since H1 2015. H1 costs are typically higher than H2 due to timing of Flood Re levy payments. The Group remains on track to reduce operating expenses to less than £700 million in 2019.

### Combined operating ratio

**92.5%**

Combined operating ratio of 92.5% improved by 0.4 percentage points largely due to benign weather in the period. Adjusting for normal weather, the combined operating ratio was 94.6% (H1 2018: 90.7%), within the Group's medium-term target of 93% to 95%. The change in the Ogden discount rate to minus 0.25%<sup>7</sup> increased the combined operating ratio by 1.1 percentage points.

### Gross written premium

**(2.2%)**

Gross written premium was 2.2% lower. A reduction in Motor was partially offset by growth in Rescue and Commercial whilst Home own brands were stable, demonstrating our diversification.

### Operating profit

**£274.3m**

Operating profit of £274.3 million was £31.2 million lower mainly due to the reversal of the exceptional Motor performance in the first half of 2018, the non-repeat of a gain on an own property sale and lower investment gains which were partially offset by lower weather claims costs and lower operating expenses.

### Interim ordinary dividend

**7.2p**

Interim ordinary dividend of 7.2 pence per share, an increase of 2.9% on H1 2018. Strong capital position with solvency capital ratio of 180% (after the interim dividend) reflecting continued prudence given current political and economic uncertainties.

#### Notes:

1. This is a summary of the information held within the Group Half Year Report 2019, issued 31 July 2019.
2. Results for the period ended 30 June 2018 have been restated to reflect the retrospective adoption of IFRS 16 'Leases'. See note 24 in the condensed consolidated financial statements of the Group Half year Report 2019, issued 31 July 2019.
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 policies under the Direct Line for Business brand.
4. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See the glossary in the Group Half year Report 2019, issued 31 July 2019.
5. See the glossary, for definitions, and appendix A – Alternative performance measures, for reconciliation to financial statement line items, in the Group Half year Report 2019, issued 31 July 2019.
6. The Group's dividend policy includes an expectation that one-third of the annual dividend will generally be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
7. Estimates based on the Group's Solvency II partial internal model.
8. Announced on 15 July 2019, with effect from 5 August 2019.

# Building a sustainable business

Sustainability is at the heart of how we think about our business. Our five pillar strategy ensures that we are thinking about long-term sustainable outcomes for our customers, our people and our shareholders and we consider the impact we have on our society and our planet. We've made great progress transforming our business, making it easier for our customers to do business with us and more efficient for us to do business with them. But we're always thinking about the future, whether that be preparing for a world with autonomous cars or using our expertise to find ways to make the roads safer and we are determined to make sure our environmental impact is minimised. We are proud of our diverse workforce and open culture where our people are empowered to talk honestly about the things that matter to them.

## Our customers

### Darwin: Built for price comparison websites

We're excited that we have recently launched our first personal lines brand in 25 years called Darwin. Currently available to motor customers, Darwin is targeting the Price Comparison Websites (PCVs) channel and is designed to offer insurance which adapts and changes its pricing to keep pace with the market.

From the outset we wanted to combine the benefits of our scale and data with a brand-new approach to pricing. Our aim was to use the latest digital and data techniques to create a pricing model that was uncorrelated to the Group's existing model, but equally predictive and to do it with a cost model that would give it competitive advantages. So we pulled

together a team of data scientists and data engineers, gave them the Group's data, and provided them with the support and scale of our claims team.

Darwin offers a full digital customer experience from purchase, mid-term amendment through to renewal. Almost all interactions can be carried out online and all correspondence provided electronically.

This innovative approach, where we are able to 'test and learn' at speed, is allowing us to offer competitive prices to even more customers – part of our plan to grow our share of the PCW market.



**End-to-end  
digital customer  
experience**



**24/7**  
straightforward  
access

### Travel Transformation: Being there for customers

We know that our customers value convenience, which is why we've built a technology platform that gives our customers a seamless digital experience when buying, managing or making a claim on their travel insurance policy.

The new platform is allowing customers to buy online, upgrade and renew from their smartphone, tablet or PC. This allows us to offer an intuitive, full online medical screening which uses up-to-date medical risk scoring technology and our customers can submit, track and manage their claims online 24/7.

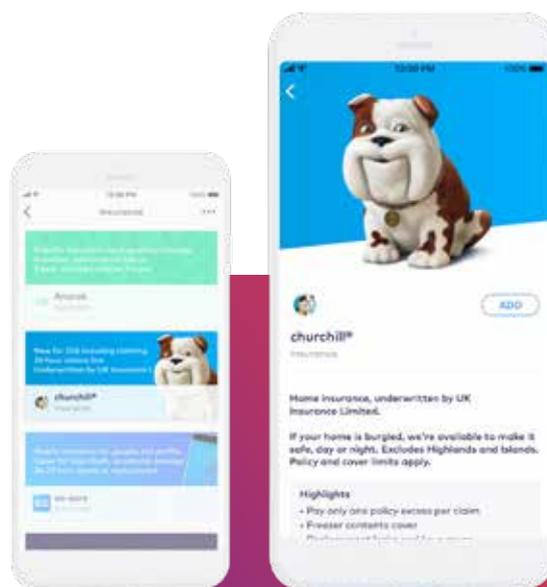
This is proving a big hit for our customers who value being able to submit a straightforward claim that can be dealt with quickly.

Our new system is not simply about making claims easier to process, as important as that is for customers and our business. We're now able to give customers much better support when they need medical treatment abroad, by directing customers to the nearest medical facility, rather than experiencing lengthy and expensive journeys. The aim is to give our customers a helping hand when encountering difficulty.

## Starling – Leveraging data to make insurance easy for customers

We've recently partnered with Starling Bank which is using its in-app Marketplace to offer banking customers Churchill home insurance. The partnership uses API (Application Programming Interface) technology. This makes life simple for customers who get directed straight to the Churchill brand quote and buy system. Here they can choose to have some of their details pre-filled using existing banking data and if a customer converts their quote to a policy, details of the start and end date will be stored in their bank account.

Our distribution strategy is to be wherever our customers are and make it effortless to access our brands and products. With more and more people managing their lives digitally it makes sense for us to partner with one of the most innovative banks in the market, helping us to reach new customers who value simplicity.



## Effortless access to our brands and products



## Personal support for people in Lincolnshire affected by floods

## Getting our customers' lives back on track

This June we saw the UK experience two months' worth of rain in the space of two days. This is when our customers really need us to help get their lives back on track. Lincolnshire was particularly vulnerable when the River Steeping burst its banks threatening the village of Wainfleet All Saints. Several hundred properties had to be evacuated and access to many others became impossible. Heavy-duty pumps were used to remove 3.15 tonnes of water every second, to help stem the flow from the river.

Our Property Insurance Advisors visited customers who were impacted by the floods in the Lincolnshire area to help reassure them that we would fix their problems. We met with people in the local community centre and at Wainfleet market place to provide advice and offer some peace of mind in a confusing and stressful situation. Our team were visible in their branded jackets and assisted both our customers and non-customers in the area.

One of our Direct Line Defenders vehicles was used to help an elderly customer return to her house, after she had been evacuated from her home for five days. Alongside this, our emergency response vehicle was mobilised in the area to provide customers with a physical location where they could come and speak with us directly.

# Our people

## 3rd best company to work for in the UK

We believe a talented team of highly engaged people produces better results for our customers and our shareholders. That is why we pride ourselves on maintaining a culture that delivers great things for our people. This year we were named the third best company to work for in the prestigious Sunday Times Best Big Companies list and awarded 2-star accreditation because we demonstrated an "outstanding" commitment to workplace engagement. One of our values is Aim Higher, so we are continually working with our people to make sure the Group is a great place to work by implementing initiatives such as:

- Company-wide minimum base salary that is 18 per cent higher than the Government's National Minimum Wage
- New set of policies to offer all our people the flexibility and support to do the things that matter to them outside of work
- Introduction of gender balanced shortlists to help build a sustainable pool of female leaders of the future
- Successful graduate and apprenticeship scheme allowing the business to support the talent of the future



**'Outstanding'**  
commitment to  
workplace engagement



**130+**  
mental health first aiders trained

## Mental Health

Direct Line Group are gold sponsors for This Can Happen and recently undertook a survey that indicated 9 out of 10 people have experienced a mental health issue. Whilst the statistics show the scale of the problem, far too often people feel embarrassed to talk openly about how they are feeling. One of our values is 'bring all of yourself to work' and we wanted to lift the lid on mental health issues and create a culture where everyone could talk openly about their own mental health issues without the fear of being judged.

That's why we put mental health at the heart of our Wellbeing Strategy because we want to give colleagues the means and ability to do their jobs successfully. To that end we have trained over 130 mental health first aiders (MHFA) so that we have at least one on every floor of every building.

### Mental Health First Aider, Jacqueline Firth said:

"I am passionate about mental health because it's something that has affected my family from my early teens. Knowing that it can sometimes be silent and that the person who is suffering thinks they have nowhere to go and no-one to help them drives me on to raise awareness everyday of this often-silent disease."

### Mental Health First Aider, Yvette Speed commented:

"I was absolutely delighted to be chosen to do the Mental Health First Aid Training. The course itself prepared me to offer the support people need. It was both insightful and practical which gave me the confidence to approach sensitive issues and the understanding to offer the right support to people."

# Our society



**72%**  
agreed with new  
safety measures

## Making the roads safer

Road safety over the last 30 years has improved immeasurably and the UK still has one of the lowest rates of road casualties in the world. Thirty six years ago mandatory seat belt wearing was introduced and has proved to be one of the most effective road safety measures in the history of motoring. However, in 2017 there were more than 200 deaths and an additional 1,000 people seriously injured who were not wearing a seat belt. Unlike other motor offences, contravening the seat belt law does not carry penalty points in England, Scotland and Wales.

Working with the Parliamentary Advisory Council for Transport Safety (PACTS) we have supported an analysis of seat belt wearing in the UK and are now campaigning for the introduction of 3 penalty points for people who flout the law. We found that a staggering 72 per cent of the British public believe penalty points should be mandatory for all not wearing a seat belt and only 15 per cent believe the current system should continue.

Through better enforcement, better education and better data collection there is the potential to increase seat belt wearing and ultimately reduce deaths and serious injuries on UK roads. The Government has now announced it will consider introducing penalty points as part of its Road Safety Action Plan.

## Driving into the future

Autonomous Vehicles (AV) and Assisted Driving Systems (ADS) look set to be the future of motoring. By collaborating with other key players in the market, we can get a better understanding of what the risks are associated with the technology and how this will impact drivers.

Move\_UK is a collaboration with Bosch, Transport Research Laboratory (TRL), Jaguar Land Rover, the Royal Borough of Greenwich and The Floow, formed in 2016. The purpose is to develop a methodology that enables a faster way to analyse huge amounts of data. This was achieved by distilling 8,500 hours of driving data into 450 short driving sequences - making it 3,000 times less data intensive than more traditional methods.

StreetWise is another project where Direct Line Group participates, aiming to develop and demonstrate AV technology on the streets in London enabling validation of safety methods that will ultimately help the delivery of insurance in the future.

To showcase the technology to the public, Direct Line Group is a major sponsor of Driverless: Who is in Control? - the latest Tomorrows' World free exhibition at the Science Museum. Exploring the role that autonomous vehicles could play in our lives in the future while also looking at some of the considerations surrounding this technology. The exhibition runs from June 2019 – October 2020.



Credit: Science Museum

**3,000**  
times less data  
intensive with new tech

# Our planet

## Bristol

As one of the largest insurance providers in the UK, and with a workforce of over 11,000 people it is vital we have a strategy to manage our estate effectively. With an ambitious target to reduce our CO2 emissions by 30 per cent before 2020 for us this isn't about tokenism, we want to identify practical steps so that we can really make a difference. Our new Bristol office is a great example that can be used as a model for our other sites.

- 20 per cent improved recycling over 18 months
- Hitting 72 per cent of our onsite recycling in Bristol office
- Recycling an average of 6,000 cups a week in Bromley

Bristol uses an innovative "free cooling" concept to manage the air temperature onsite, so employees can benefit from a

comfortable office that is optimised with chillers, air handling units and boilers - using existing cool air outside. Crucially it means the office is able to self-regulate its heat use depending on how many people are in present in the building.

Greater connectivity gives colleagues more opportunities to hot desk and work from home, meaning we can consolidate office floor spaces during low occupancy hours and ensure building equipment and lighting usage is more efficient.

We've also reduced the amount of plastic we use by introducing Vegware products, including food containers, cups and cutlery, which are fully compostable. By using these products our canteen uses limited plastic and we aim to be a fully plastic free environment in the future.



**72%**  
onsite recycling

# Our governance



**Quarterly**  
meetings with our CEO

## Involving our people

We have an open culture to ensure free flowing dialogue across and between all levels of the organisation. There are a number of formal mechanisms in place, for example Health & Safety representatives and diversity networks, but to ensure people's views and opinions are heard we have the Employee Representative Body ("ERB") which is made up of colleagues from around the business. Elected by their peers, they meet regularly with relevant business leaders to discuss people, operational and strategic challenges. Each quarter the UK ERB meets with Penny, our CEO to discuss and exchange views on companywide matters and for selected meetings, one or more Non-Executive Directors also attend to hear directly from representatives what's important to our people.

Established in 2010, the ERB has provided a unique platform for colleagues to voice their opinions in an open way that influences the way the business arrives at its decisions. The ERB played a valuable role in the consultations that re-shaped the business as we divested from RBS and floated as a listed company. It is now enhancing the experience of all colleagues with meaningful initiatives such as our flexible and parental leave policies launched last year.



## Direct Line Insurance Group plc ©

Registered in England & Wales No. 02280426  
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For more information please visit  
<https://www.directlinegroup.co.uk/en/investors.html>

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