

This announcement contains inside information.



Direct Line Insurance Group plc

Trading update

11 January 2023

Direct Line Insurance Group plc (the “Group”) is today providing an update on current trading, weather related costs and outlook.

Penny James, Chief Executive Officer, said:

“We have seen a volatile and challenging operating environment in the fourth quarter. We have seen a significant increase in claims as a result of the prolonged period of severe cold weather in December and I am proud of the way that we have supported our customers during this period. These claims, combined with further increases in motor inflation, have had a significant impact on our underwriting result for 2022. We have also seen reductions in the valuations of the commercial property holdings in our investment portfolio in line with movements in the broader property market.

As a result the Board no longer expects to declare a final dividend for 2022. The Board recognises the importance of the dividend to our shareholders, and continues to take actions to restore balance sheet resilience and dividend capacity as a priority, consistent with our track record of delivering returns for shareholders.

Despite the impact of these external factors, we continue to make good progress, including enhancing our technological capabilities, introducing new products and improving our efficiency. We have taken actions to respond swiftly to further inflation in motor claims and will continue to navigate market volatility as it arises.”

Weather

December saw a prolonged period of sub-zero temperatures across the whole of the UK. As a result, we have so far helped three thousand customers deal with burst pipes, water tanks and other related damage. It is still relatively early but we currently expect claims associated with the freeze event to be around £90 million across Home and Commercial.

This, together with the freeze event from January 2022 and subsidence related claims over the summer means that we currently expect total weather claims to be in the region of £140 million for 2022, well above our 2022 expectation of £73 million.

Trading and underwriting performance

Motor trading in the fourth quarter improved against a hardening market backdrop with direct own brands in force policies broadly flat across the quarter and gross written premium 2% lower compared with the prior year, a significant improvement on the variances in the third quarter.

Claims inflation, however, remains a feature of the market. Inflation in relation to own managed damage claims remains broadly in line with expectations; however, we have seen a further increase in third party claims inflation during the fourth quarter. Additionally, the fourth quarter has seen an increase in claims frequency, in part relating to the adverse weather conditions. At this stage we estimate these factors will increase the motor loss ratio in 2022 by around six percentage points. We are continuing to take actions to address this.

Other Group segments have traded broadly in line with expectations.

Investments

The fourth quarter saw relative calm in the bond markets after the extremes of the end of the third quarter. However, as highlighted in our Q3 trading update, the investment property market has seen a reduction in valuations.

As a result, our investment property portfolio has experienced a c.15% reduction in values, equivalent to £45 million. This is greater than we had initially expected, but broadly in line with commercial property indices over the fourth quarter. Our investment property portfolio has delivered excellent returns overall since inception, and occupancy levels remain strong at around 95%.

Operating expenses

Notwithstanding the inflationary backdrop, we expect operating expenses to reduce year on year to around £700 million in 2022.

2022 estimate and 2023 outlook

Taking all these factors into consideration, our initial expectation is that the Group combined operating ratio normalised for weather for 2022 will be around 102% to 103%.

In addition, the impact of higher motor claims inflation on the business already written is estimated to increase the 2023 Group combined operating ratio by approximately 2 to 3 percentage points, relative to the target of around 95%.

Our medium-term combined operating ratio target remains unchanged and the Group will reset targets to an IFRS17 basis with the full year results.

Capital position and 2022 final dividend

We have returned over £1.5bn of capital over the last 5 years and we continue to understand the importance of this to our shareholders.

The dynamics of 2022, and in particular the additional factors in the fourth quarter, have resulted in a capital coverage that is now expected to be at the lower end of our risk appetite range of 140% to 180%. Therefore, the Board no longer expects to pay a final dividend for the 2022 financial year.

The Group has a range of management actions that it continues to pursue to rebuild balance sheet resilience.

For further information, please contact

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This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the Company is Neil Manser, Chief Financial Officer.

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", "will" or "would" 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 may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to return on tangible equity, solvency capital ratio, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in expense ratio, investment income yield, net realised and unrealised gains, capital expenditure, risk appetite range, balance sheet resilience and dividend capacity; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. 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 and/or they rely on assumptions that may or may not transpire to be correct. 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 or assumed in 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 Trade and Co-operation Agreement between the UK and the European Union ("EU") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the Russian invasion of Ukraine;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and of 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, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) 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 (or any part of it including any press release), nor the content of any other website accessible from hyperlinks on the Group's website, is incorporated into, or forms part of, this document.

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