

CEO review



“The turnaround strategy, launched in July has made a marked difference to the company’s performance, and we generated good momentum across all our business lines.”

Adam’s letter to shareholders

In 2024 we embarked on an ambitious mission to rapidly transform Direct Line Group. Our focus on a new strategy, delivering technical excellence, driving down cost and embracing a high-performance culture has delivered a turnaround in results. Despite difficult market conditions, 2024 ended with an operating profit significantly ahead of the previous year.

Unlocking potential

I joined Direct Line Group in March 2024, just as the Board had rejected a “highly opportunistic” proposal from Ageas SA/NV, which they felt significantly undervalued the business and its prospects. My focus was firmly on diagnosing the issues holding back performance and demonstrating to our investors how we could rapidly unlock the potential of the Group. I spent a lot of time with our stakeholders to understand their frustration with the ways the Group had lost its technical edge and underperformed in recent years.

At our Capital Markets Day in July 2024, we laid out a new strategy for the Group to address investors’ concerns and establish a roadmap to transform the business quickly. We laid out targets for becoming the customers’ insurer of choice and delivering profitable growth with measurable targets across the next three years. We have made solid progress to date and started to deliver against many of the key initiatives rapidly.

We announced we would intensify our focus across our Motor and Non-Motor segments. Prioritising driving value in core disciplines has been beneficial, with all areas demonstrating positive performance. Importantly, we’re also securing consumer accolades, showing that we are providing products and service that customers truly value. With two of the strongest brands in personal lines insurance, Direct Line and Churchill, and with Green Flag as the leading challenger in the Rescue market, we have fantastic assets to build upon.

Financial progress

The business has delivered a net insurance margin of 3.6%¹², a 12.3 point improvement on the previous year. We have a stated aim to increase this to 13 per cent³ in 2026. We are well on our way to delivering a significant reduction in our cost base, to narrow the gap with our competitors, targeting at least £100 million of gross cost savings by end of 2025 on a run-rate annualised basis⁴ and we have maintained a strong pre-final dividend solvency capital ratio at 200%⁵, a good platform from which to help the Group withstand headwinds.

Strategic and operational highlights

- Direct Line Motor on Price Comparison Websites ("PCWs"): Successfully delivered on one of our key strategic ambitions with the launch of three new Direct Line branded Motor products on the Compare the Market PCW.
- Motor pricing: Next generation pricing models implemented alongside four material new data enrichment sources.
- Home re-platform: All own brands now live on the new technology platform which brings significant new pricing and underwriting capability and supports simplification.
- Rescue: Two new contracts signed, including a collaboration with Apple, becoming the only UK breakdown brand to offer rescue services as part of Apple's Roadside Assistance via satellite. The own patrol fleet was further expanded to over 60 vehicles across 6 regions (2023: 16 patrols across 2 regions).
- Commercial Direct: New risk models rolled out for Van and improvements made to Landlord online journeys.
- Digital: New apps launched for Direct Line and Churchill Motor, with almost 300,000 downloads to date, enabling customers to make policy changes with ease.
- Cost saving programme: A series of initiatives aimed at simplifying the organisation is projected to deliver £50 million gross cost savings in 2025, as part of our target to achieve run-rate gross savings of more than £100 million by the end of 2025⁴. Our drive to create a leaner and more efficient operating model is well advanced, with consultations now complete as part of a reduction of 550 roles.
- Claims: A range of initiatives launched across Motor and Home, designed to deliver better outcomes for customers at lower cost.
- Travel: We have decided to close our annual multi-trip and single trip travel insurance products to focus on our core markets in Motor, Home, Rescue and Commercial Direct.

Operational transformation

We have made considerable progress over the year. In Motor, in July we announced that we would be putting our strongest brand, Direct Line, on Price Comparison Websites ("PCWs"), where 90 per cent of motorists purchase their insurance. Less than six months later, in December 2024, we delivered on this promise. We launched three new Direct Line branded motor products on the biggest PCW in the UK with an ambition to return our overall Motor policy count to growth during 2025. Our Motability partnership has also seen an increase in policy count and we aim for it to continue to grow.

Beyond Motor, we outlined ambitious plans to grow our Home, Rescue and Commercial Direct offerings. In Home we delivered own brands premium growth of 18% and increased own brands policies by 1.3%. Technology re-platforming is now largely complete with Direct Line, Churchill and Privilege all trading on a new platform.

In our Commercial Direct Insurance business, our strong proposition in Landlord and our compelling SME offering delivered 8.8% gross written premium growth and strong customer retention. We stayed disciplined on the bottom line in Van and our earned loss ratios were within our target range.

Our Rescue business made significant strategic progress in 2024. We grew our 'owned patrol' network to over 60 vehicles, covering 28% of the UK market, supported nationally by a network of independent providers. These owned patrols helped customers, and also generated over £600,000 in additional roadside revenue.

Technical innovation will remain a key focus across the Group as we seek to drive home a competitive advantage. We signed a contract with Apple for Green Flag to become the first UK breakdown provider to offer rescue services through Apple's Roadside Assistance via satellite capability. This allows us to reach people who might otherwise not get help because they don't have mobile phone reception or Wi-Fi access.

We launched two new apps, for Direct Line and Churchill, meeting the needs of customers who increasingly want to engage with us digitally. We will keep our focus on aiming to build seamless customer journeys, letting people self-serve, simplifying the claims process and making our products more accessible. We aim to expand AI solutions to reduce cost and increase the speed of service to meet the evolving needs of policyholders.

In Claims we're improving the service we provide customers while unlocking savings across our operations. We're settling bodily injury claims much more proactively, reducing the number of cars we write off and using our network of owned repair centres to control costs. Effective claims management also relies on excellent counter fraud capabilities, and we delivered a 21% increase in cost savings after introducing data analytics and voice analysis profiling.

Effective risk management

As a general insurer, the environmental factors impacting the Group's performance are major UK floods, windstorms, freeze events and subsidence. We believe we are appropriately reserved against those perils. During the year, we acquired climate scenario modelling capability to support our assessment of the impact climate change could have on our underwriting and investment portfolio. This also helps us better understand the opportunities that may arise from the transition to a lower-carbon economy.

When implementing the strategy outlined at the Capital Markets Day, we ensured that we set out to embed enhanced risk controls within the business. For example, new pricing and risk models enable us to be more agile, allowing for more frequent rating and risk model updates. This renewed focus on risk management procedures, monitoring emerging threats and tightening control environments helps protect profitability and reduces the likelihood of unexpected impacts on our Group.

Cultural transformation

We have recruited an entirely new Executive Committee of high calibre, experienced leaders, with a track record of delivery. This new leadership team have made great strides in transforming the culture of the business, and our colleagues have embraced the opportunity to grow and operate with a high-performance mindset.

Transforming a business is not easy, and we've had to make tough decisions about people and capital expenditure. We are simplifying our management structure in line with our aim of being a more efficient organisation with clearer accountability.

Over the last year we have made the necessary changes to succeed in what is an incredibly competitive industry. Throughout it all, our talented colleagues have consistently demonstrated their resilience, energy and commitment. They take immense pride in our brands and want to be brilliant for our customers every day.

Navigating headwinds

In 2024, the insurance industry continued to grapple with significant trading headwinds. Inflation drove up the cost of claims, particularly in Home and Motor, where repair and replacement costs have surged in recent years. Economic uncertainty and the ongoing pressures from the cost-of-living crisis have created an increasingly competitive market, with insurers facing challenges in balancing affordable premiums while maintaining profitability. These factors meant we needed to adopt innovative approaches to underwriting, pricing, and risk management.

Looking forward

2024 was a landmark year for Direct Line Group, with the Board recommending a cash and share offer for the purchase of Direct Line Group by Aviva plc. On 10 March 2025 Direct Line Group's shareholders will vote on the transaction.

The potential acquisition by Aviva, which remains subject to shareholder and regulatory approval, reflects the attractiveness of the Group, and we believe indicates the significant strength of our brands and products, the trust of our customers, talent of our people and the scale of the future opportunity. In the meantime, we remain an independent business focused on transforming our organisation, so we are better equipped to serve our customers with exceptional products and services. While we need to plan appropriately for this potential takeover, we need to make sure we don't take our foot off the accelerator when it comes to delivering business change.

I am filled with immense pride in what this business has achieved since I joined. The passion and dedication of our colleagues, with an unwavering commitment to delivering brilliant customer outcomes, is unparalleled. Our mission goes beyond policies and claims: we help safeguard communities, support the vulnerable and allow our customers to face the future with confidence.

We are set to embrace the opportunities of tomorrow thanks to the hard work and dedication of all those at Direct Line Group.



Adam Winslow
Chief Executive Officer

Notes:

1. See glossary on pages 238 to 241 for definitions and appendix A – Alternative performance measures on pages 242 to 245 for reconciliation to financial statement line items.
2. Ongoing operations – the Group's ongoing operations result excludes the results of the Brokered commercial business, that it sold to RSA Insurance Limited in 2023, and its Non-core businesses, announced at the Group's 2024 Capital Markets Day, and three run-off partnerships that the Group completed its exit from in H1 2024. Relevant prior-year data has been restated accordingly. See glossary on pages 238 to 241 for definitions and Appendix B – Management view statements of profit and loss, expenses, average premiums, gross written premium and associated fees and in-force policies on pages 246 to 253.
3. Net insurance margin for ongoing operations, normalised for event weather.
4. The Group's total operating expenses, acquisition expenses and claims handling expenses, adjusted to exclude restructuring and one-off costs, commission expenses and costs associated with the Brokered commercial business, Motability and By Miles.
5. Estimates based on the Group's Solvency II partial internal model.