

## Q3 2021 Sales and Revenue Call

### Company Participants

- Jonathan Greenwood, Managing Director, Commercial
- Mark Evans, Managing Director of Marketing & Digital
- Neil Manser, Chief Financial Officer
- Penny James, Chief Executive Officer
- Rebecca Clapham, Managing Director of Direct Line for Business
- Sonya Bryson, Managing Director

### Other Participants

- Alan Devlin
- Analyst
- Faizan Lakhani
- Freya Kong
- Gordon Aitken
- James Shuck

### Presentation

#### Penny James {BIO 15157212 <GO>}

Good afternoon, everyone, and thanks for joining us for the second time and just a little over a week. As we mentioned in the first of (Technical Difficulty) half year results I spoke about how we start from a position of strength with leading customer service, strong brands and market-leading claims capabilities. But our biggest course of friction has been our IT systems, which our technology transformation is aimed to address, providing our pricing and underwriting teams with a step-changing capability.

So, why we've chosen Commercial as the next session to to provide you some insight on. Well, there are three main reasons. Firstly, Commercial is furthest through this transformation and show what can be achieved when you combine new technology and data architecture with an agile way of working. Secondly, they demonstrate what can be achieved if we get all the elements of the flywheel working together. Over recent years, it's driven strong growth and improved margin with only a small proportion of this driven by market hardening.

And thirdly, Commercial is an increasingly important area of the group, both because it provides a strong diversifying benefits, but also, because of its ability to innovate and deliver change at pace, its building knowledge and capability that the entire group can

learn from. So, I'm going to pass over to Jon Greenwood, the Managing Director of Commercial to kick us off. Jon?

## **Jonathan Greenwood** {BIO 17958326 <GO>}

Thank you, Penny, and good afternoon, everyone. I'm pleased and proud to be here today to talk about our Commercial business. For those of you that don't know me, I've been with Direct Line Group for 20 years, starting life in our personal lines business and taking responsibility for our Commercial business in 2010 prior to the IPO.

In that time, we've been pursuing our strategy of focusing on the SME market, supported by a fundamental rebuild of our technology and data architecture. The Commercial market is a very dynamic market, and over the last 10 years, we've been constantly refreshing the business.

We believe that the business that we've built takes advantage of the opportunities this brings and you will have seen the evidence of this in our financial results. Today, you'll hear from Sonya Bryson, our Managing Director of NIG; and Rebecca Clapham, our Managing Director of Direct Line for Business.

I'll kick us off by highlighting the key messages, which we would like to convey through this presentation. Firstly, we know that to compete in the SME market, it's necessary to cater for a very diverse range of customers from sole traders through to complex businesses. And so, we've been on an intensive journey to develop our multi-product, multi-channel offering, which gives customers the choice of how they deal with us.

Secondly, we transformed our technology systems, which has delivered in turn a step change in our pricing capability and our use of data.

Thirdly, we've shown that we know how to succeed in this market and have significantly improved our profitability whilst at the same time, delivering growth. Fourthly, we have a highly entrepreneurial and innovative culture, which has enabled us to deliver a series of successful initiatives and get ahead of emerging market trends.

And finally, this all means that we look ahead confident in the belief that we can continue to grow.

Moving on to slide 6. I'll now provide an overview of the journey that we have been on whilst transforming the business. It's been one of improving financial performance, coupled with investing in technology, all of which all of which has been done whilst disrupting the SME market with numerous product and channel launchers, which you can see in the timeline across the bottom of this slide.

The graphs show that two years prior to the IPO in 2012, we were a loss-making entity. Since then, we have built a track record in not just improving the margins of the business, but also in consistently delivering growth.

In today's presentation, I'll explain how we've managed to achieve this. So, earlier I mentioned, how critical it is to hold a diverse portfolio of strong product and the brands in order to win in the complex SME market.

On slide 7, you can see, how we've built a business that caters to that market and provides access to our products through a broad set of distribution channels. At the time of the IPO in 2012, Commercial was made up almost exclusively of NIG and the recently launched Direct Line for Business.

In 2018, we recognized the growing opportunity in the PCW channel and we created Churchill for Business. And we've continued to innovate with the aim of getting ahead and market trends both for Commercial and the rest of the group. Our most recent initiative is focused on the trend away from outright car ownership and towards subscription-based ownership, with the associated requirement for fleet insurance.

We've already made an excellent start working with new entrants like Zoom through our partnership arm UKI business solutions.

And once the book is modest in size today, we believe it is strategically important for the future. We see a strong overlap between the move to electric vehicles and the move to subscription-based ownership, which is why the Commercial division has led the way in developing our recent EV proposition. I'll come back to this later.

In summary, we have built a business that leverages a number of strong brands across a range of established and growing channels, which means we are well-placed however the market develops.

So, moving on to slide 8. I'll now provide some more details on the size of the market and the potential it represents. Whilst it's difficult to accurately size the SME market, we believe it's worth around ?9 billion, which means that at the end of the third quarter, we estimate our share to be approximately 7%. This in turn means that there is a significant opportunity for us to grow our share.

2021 has been a year of double-digit growth, enabled by our many investments and initiatives, which have landed at a particularly favorable point in the cycle. Whilst the market may turn at some point, we believe we are still well-positioned to grow. We see growth from two key opportunities.

Firstly, using our improved capabilities to continue winning share within our existing footprint. And secondly, expanding our footprint into slightly larger risks. Sonya and Rebecca will talk more about these opportunities later.

But before I hand over to Sonya, I'd just like to spend some time talking about the data and technology transformation that we've delivered. As I mentioned earlier, it has been a key element in improving our competitiveness.

So moving to slide 9. We've been retooling and improving the quality and visibility of our data and the level of insight that we gain from it. This has delivered a step change in capability for us over recent years. Our data is one of our most valuable resources, and for Commercial lines, it's been one of the greatest opportunities, because it was previously difficult to access, and therefore, underutilized.

That's because, as with any growing business, multiple products and systems were introduced at different times resulting in a fragmented and complicated architecture. Recently, significant work has been done to re-platform much of our business and capture the wealth of data that it produces. This diagram effectively summarizes the constituent parts of our new architecture, which we have totally rebuilt.

There's a lot of detail on the slide, but let me just take you through it step-by-step. First, across the top, we've re-platformed all of our major brands. Secondly, we've built a data layer, which essentially means we have consolidated and standardized our data into one accessible system.

Thirdly, this data layer is enriched by external data sources, seen on the left-hand side of the diagram. We import this data for both individual pricing and to enrich our pricing models.

Fourthly, this rich data flows smoothly to the analytics layer where because the data is standardized, we can use our models to quickly analyze and interrogate it. And finally, as you can see on the right hand side, we can then flow this modeling directly into the live environment through the deployment layer without any loss of granularity.

Along the bottom of the slide, you can see our business insight layer, which makes the data available to all of our people. We've dramatically increased the reach of insight through our use of dynamic online dashboards.

So, hopefully that gives you a feel for how we have completely rebuilt the way we store and leverage our data. But what does that mean for business performance? I'll now talk you through how these new capabilities have driven a step change in our competitiveness and our financial performance.

Moving on to slide 10. The table shows how this new architecture has driven significant changes in where we spend our time. As you can see from the boxes on the left, the pricing and modeling teams previously spent around 50% of their time pulling data together, and wrangling it into a usable format.

Thanks to our new technologies, the analytics teams can now spend more of their time focusing on delivering greater benefits to the business. The analytics activity in the third column has seen a remarkable four-fold increase in the time invested in this most valuable of activities. So, what does that mean for our pricing capability?

Firstly, we've increased our suite of models from 15 to 92, generating a huge increase in our pricing accuracy. Secondly, these changes, coupled with the adoption of agile ways of working, have made a huge difference to the rate of change. Some products have seen pricing updates move from yearly to several per week.

Thirdly, our new infrastructure is also designed for the future allowing us to enter the world of alternative modeling by utilizing machine-learning techniques. The introduction of these new techniques has allowed us to refresh models such as those, which look at conversion and retention, with considerably less data and much faster than was previously possible.

We believe this ability can give us a real competitive edge. So, what impact have these changes had? Well, it's been key to improving our current year profitability through significantly improving technical pricing accuracy, which has then enabled us to target the right types of risk and tap into pockets of value we see in the market. This step change has been a core component in Commercial's transformation and underpins our business strategy along with the pursuit of new opportunities, which I will return to later.

But first, I'm going to pass over to Sonya to talk about the NIG's strategy in more detail. Thank you.

## **Sonya Bryson**

Thanks, John and good afternoon. By way of introduction, I've got over 20 years' experience in the commercial market, the last 10 of which have been here at DLG. So, the purpose of this section is to provide an overview of the journey we've been on in NIG, how we've transformed our business and how we are now winning in the broker market.

I'll start with an overview of NIG. What we do and where we trade. And then, move on to the key ingredients for success in the intermediated SME market. And finally, why we are winning in that market.

So on to slide 12. So firstly, we've been around a long time. So our NIG brand is well-known amongst brokers with a reputation for strong customer service. This is crucial in the broker market. Over recent years, we've been on a journey of improving NIG's profitability at the same time as growing, this is incredibly difficult to do at the same time.

And so, for the next few slides, I'll walk through how we have achieved this and why we believe we're set up well for the future. But first, a bit more detail on what we do. So, NIG was originally a provider of Personal and Commercial lines, but are now solely focused on commercial entities in the SME space, and it's all intermediated by brokers.

The NIG book has evolved over time. And today, we underwrite various products that can be easily categorized into four key areas. First, our complex business accounts for just under 40% of GWP and has seen good growth, particularly, this year. This is our regionally traded business, serviced out of 10 offices. The majority of which are strategically located for easy access to key brokers and markets.

Our flagship product here is Motor Trade, where we ensure vehicle garages for motor sales, repairs and servicing. It's a product that's been part of the NIG stable for a long time because of our expertise and it's also a market that is changing capacity. And so, our reliability here really gives brokers confidence.

Second is our niche business, where we have particular specialist expertise that sets us apart from the market. There are three main cohorts here. We've set up a dedicated service center for our schemes business, which is business where brokers we trade with have a particular specialism, and they carry out the majority of policy administration.

Niche also includes our agricultural insurance brand FarmWeb. We're now in the top three for provision of agricultural insurance and our proposition here stacks up really well against the market leaders.

And finally, municipal housing, there are only a few other insurers playing at scale in this space and it's another market that's quite fluid in capacity, but our expertise means we have weathered the peaks and troughs well in recent years to remain a consistent and recognized provider.

Third is e-trade, which makes up around 18% excluding the motor lines, and is an online system that allows brokers to self-serve the common set of package policies such as property owners, offices, shops, trades bill and the like. This space is evolving as brokers continually seek efficiencies and more complex business is being e-traded.

Keeping their journey as simple and as efficient as possible without compromising underwriting integrity is key, and we continue to enhance the system and aim to be best-in-class.

Finally, the Motor business, which is around 18% of GWP, and also has seen significant growth in the last 18 months, primarily in the van and mini fleet arena. But across the piece, we've worked hard to improve the profitability of the book over recent years. The portfolio certainly wasn't broken, but the ongoing soft market, some large claims, and a few weather events brought the trajectory in sharper focus.

From there, we implemented a plan of rate carry, both ahead of our competitors and ahead of claims inflation, alongside using data and good old-fashioned underwriting. We took a forensic look at the book to target sectors of underperformance. It was quite a tough journey, especially to be an outlier of at this rate strategies. But the slide I'll cover next will demonstrate we knew how to navigate it, and we have come out stronger the other side.

Moving on to slide 13, where I'll outline what it takes to win and what is a crowded SME market. It's critical we understand what makes a difference to brokers, so that we're first on their speed dial. The technology and data transformation that Jon walked through earlier are core underpin to this. But to really excel in this market, there are five key things you need to get right.

Firstly, you need strong broker relationships. This is, without doubt, a relationship business and nurturing those relationships over time really pays dividends. Secondly, a great (Technical Difficulty) especially claims. It's essential to reassure brokers and customers that we're there for them when they need us.

Thirdly, you need a comprehensive product set, that needs to be appealed to a broad range of customers' needs and innovation to find ways to add value for brokers. Fourth, having robust effective underwriting is critical. This has been a key part of our fixed journey over the past four years.

And finally, of course, you need financial stability and capacity. Overall, what we've learned over recent years is that if you get these things right, you can win in the broker market. I'll now bring to life how we have achieved this and what it's meant for the business.

So, on to slide 14, so, what have we done to make sure we meet the needs of brokers. Our systems journey has meant some heavy lifting and the improvements in data that Jon spoke about, has helped us grow NIG and I've put some of the key points on this slide.

As I said, this (Technical Difficulty) great broker relationships and we know that giving brokers access to empowered underwriters who can and will make trading decisions is a key differentiator. We'll continue to look for ways to expand our regional footprint where there's opportunity to add value in local trading regions.

An example of this would be the dedicated center that we set up for the smaller brokers to trade with us, those who rarely get any kind of service from competitors. We give brokers choice about how they trade, and so, we've enhanced our award-winning e-trade system, award-winning again only last week. And that now utilizes robotics, automation and AI to enable our brokers a quicker customer journey and improved conversion.

Now, this really is effortless trade-in with around 75% of NIG policies now e-traded and despite those volumes, we're achieving customer satisfaction feedback scores of over 90%. As a further build, we're aligning our e-trade products to our regional ones to ensure brokers have full channel choice. A recent example would be the mini fleet product, which has been revitalized with a new rating set, a refreshed underwriting appetite, and acceptance criteria much more aligned to the regional fleet product.

Now whilst we're mindful that e-trade business is certainly less sticky, the growth we've seen in that product with absolutely no marketing activity demonstrates that brokers want to use the system for quick and efficient trading.

So, onto customer service, we provide ourselves on service and this was evident during the pandemic when we continued to serve brokers without interruption and our availability delivered a really strong Q2 trading performance. But that's actually only half of the story. You need to follow it up with a brilliant claim service.

You'll remember Jessie spoke about improved claims processes in June and we've benefited from that in Commercial. The improved first notification of loss process and the digitized claims handling now allows customers to notify these digitally, uploading photographs and video to support their claims, which reduces the time it takes us to settle them.

We can even pay some claims that they have received. So we've leveraged our technology capability and strong broker relationships to see where we can expand our products and propositions. We've done this through new products such as Add-On Cyber and Professional Indemnity for defined trade men and we're looking at areas where we can expand that further.

But beyond that, we've looked at what other value-adds that will give brokers an edge, a real USP, and so we made a brave decision to launch NIG Risk Assist mid-pandemic to give brokers and clients help managing their business through an online portal. It's available 24/7, offers advice, training and relevant support such as business reactivation toolkit, which guided businesses through reopening once lockdown restrictions eased.

We've had over 50,000 policyholders registered their interest in the toolkit and now have over 6,500 active users. Anecdotal feedback from them has been really positive about its power to help win and retain customers, because they can see the value it adds to their business. But all of this must be supported by robust and competent underwriting.

Our experience in underwriting has been the other proof point on our journey. This was brought to life by the way NIG navigated the FCA test case on business interruption policies last year in response to the coronavirus. 15 years ago, following the following the SARS outbreak, we have the foresights to future-proof our product and our BI exposure was very limited to just a few broker schemes wordings.

Now, in addition to the e-trade business, we've been re-platforming our complex business on to activists over the last three years, to improve the data sophistication and risk data capture that Jon mentioned. It's given us much more agility to change rates quicker based on the insights from the improved modeling and means we can actively focus on risk selection based on that data.

The re-platforming has also enabled us to update our products and the way we trade them, replacing outdated proposal forms with currency and the facts, and providing instant online policy documentation to the customer.

We're over three quarters of the way through that journey now with just one more product to go, and we've seen an increase in average new business premium of nearly 30% in two of our core products that have benefited from the move. And this last point brings all of these steps together as we expand our strategy of more than before. And ideas nailed to the S of SME, but the strength of our underwriting alongside the data and systems improvements demonstrates we're capable of much, much more within the SME footprint.



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We've been extending our reach and growing by writing more emphasized business now, which has been accelerated by the market changes. Our broker relationships have deepened and to drive this to the next level, we've launched lead and follow line products to respond to the market cycle. This is where larger risks are scheduled as insurers pull back their capacity and we've also established a new team of experienced brokers to deliver our niche offering. This is designed to further diversify our portfolio in a controlled and measured way, seeking growth in new areas.

So, on to slide 15, what does it all mean? This chart shows the GWP journey and an awesome 15% growth on prior year demonstrating that we've successfully navigated a period of fixed and systems transformation alongside a period of tooling up, and we're a go-to-insure of choice for SME business, which of course we're thrilled with.

And by building on what we already do really well, we hone the nuances of the overall NIG proposition for SME customers and our pricing capability and underwriting discipline will mean, we'll continue this fantastic work and strike the right balance between growth and profit, was further demonstrating our relevance in an ever-changing market. This is why we have confidence in our capability and momentum to drive future success. I'm now going to hand over to Rebecca to talk about the DL for B. Thank you.

## Rebecca Clapham

Good afternoon. I've been at DLG for 14 years holding roles across both Personal and Commercial lines, specializing in product development, trading and regulatory disciplines.

We're really proud of Direct Line for Business and what we have achieved. It is a real disruptive brand offering customers and alternative to using brokers. Our mission is to create and capture the direct market through innovation and the ability to deliver change at pace, all underpinned by great technology. It really is an exciting place to be.

Since its launch in 2007, it has delivered consistent growth up to a premium base of ?147 million in 2020. In recent years, through technology transformation, we continue to expand the footprint of Direct Line for Business. So, we have massive potential to go further. We estimate the market size could grow to around ?3 billion, and so we have a strategy that continues to innovate and build unique customer offerings in order to win end market.

We have all the right ingredients to achieve that. We have enhanced the way our products are structured to give customers more choice and flexibility, to truly build a policy around their diverse needs. And we've rebuilt our systems and rating capability to give SMEs insurance this great value.

This required both a retooling of our business, but also a mindset change in how quickly we react to changing customer demands. This transformation has increased our customer base by over 25% since 2016. But we know we have only just started.

Over the next few slides, I'll walk you through how we've achieved this and why we are confident for the future. As you can see on slide 18, we took numerous steps to transform Direct Line for Business, to design a solution, to better serve customers, and capitalize on the opportunity to create and capture the direct commercial market.

First, we needed to offer flexible cover that could be tailored to a customer's needs through using modular pick and mix style products backed up with strong customer propositions. We used the underwriting appetite and experience we had in NIG and expanded our products set to serve SME customers who we believed would come direct.

Our new customer journeys ensured simplicity for customers with plain English used to explain cover and provide transparency. We knew we could capitalize on the group data enhanced our rating capability to ensure our pricing delivered sustainable growth and was competitive.

We set up segment alliance squads so we could build deep customer and product expertise. Squads are empowered multi-skilled teams brought together to focus on a specific mission. We have built on our strong brand recognition by expanding our marketing capability to give us opportunity to segment our customers. Our customers, be anything, from a gardener to a firm of graphic designers, we need to be able to tailor communications for our varied customer base.

And finally, and most importantly, our new technology stack which Jon talked to you earlier, alongside the creation of in-house engineering capability provided the agility to respond quickly. Our IT infrastructure is modular and we have engineers embedded in our squads, which means, we can quickly design and execute the business strategy. This creates speed in things like price, product and customer journey changes, allowing us to respond to our improved data it's telling us.

On slide 19, here you can see a timeline of all our key activity. And as you can see that it's been a busy five years. We decided that to create and capture the market, we would start small and iterate, building our products for one customer segment at a time. Alongside the building of new products, we also took steps to transform our ways of working to ensure we could fully capitalize on the modern systems we have invested in.

One of the key components was the implementation of the agile operating model, which creates squads empowered to execute against a focused mission. This enables us to deliver change at pace and at lower cost. This capability is absolutely essential to win in this market as each product is bespoke and tailored to specific risks. This methodology has been replicated across our motor and home core businesses to create that same agility.

Projecting forward, we believe we will be able to continue with the healthy cadence of delivering new products for further expanding customer base.

On slide 20, you'll see having the right tools and products and an agile mindset means we now have all the four elements of the flywheel that Penny talked about. This has

enabled us to deliver strong growth. It also means, we are perfectly placed to take advantage of a growing market.

So, starting with customer focus, our flexible pick-and-mix SME product suite means we can serve over 850 trades by allowing them to build their insurance cover around their business needs. Our easy-to-use product builders means customers can personalize the cover, they choose to what's right for them.

And our Plain English ensures customers get the right information they need to help them make the right choice. Our agile systems and ways of working mean we can respond rapidly. During the pandemic, we got our customer-facing colleagues working from home within 48 hours. We also launched market-leading propositions, which meant we looked after our customers when they needed it the most.

Our MoneyBack Mileage proposition gave customers refunds when they weren't using their van as much during lockdowns. Our free legal essentials product was given to all our SME customers giving them vital access to legal advice when navigating through uncharted territory like furlough schemes.

Second, our group wide claims expertise and scale has given us the opportunity to deliver market-leading propositions, giving customers access to rapid resolutions when they need to make a claim. We were the first commercial insurer to offer property emergency cover to landlords.

We also replaced stolen tack within 24 hours using our robust claim supply chain. This is when our service really matters most to customers. Their livelihoods are at stake. And so, the claim service we provide is of paramount importance to us.

Third is efficiency, our new systems mean we can deliver more product change ourselves, meaning quick iteration of our customer journey and product offering is available. We've also improved the efficiency of our marketing spend significantly overtime to test and learn activity meaning we can achieve more from our investments.

Finally, we continue to innovate for sustainable growth and we're excited about what the future holds. Our online journeys have continued to evolve and adapt to more efficiently serve our customers. Customers now have multiple channels to choose from when they need to service their policy. We have squads actively working on the delivery of our next product enhancements, and targeting new customer segments, which will allow us to serve even more trades.

So moving to slide 21. Hopefully, I've given you a feel for why we are so excited for what we believe we can achieve in the future with Direct Line for Business. We have a proven track record of disrupting the SME market and delivering profitable growth. With our technology transformation and ability to deliver change at pace, we look ahead with confidence. And with that, I'll pass back to Jon.

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## Jonathan Greenwood {BIO 17958326 <GO>}

Thanks, Rebecca. DL for B is a great example of where we have seen an opportunity in the market and move decisively to capitalize on it. It's just these types of opportunities, which we are constantly on the lookout for.

Churchill for Business is another great example. As I briefly mentioned at the start in 2018, we saw an opportunity to use our powerful Churchill brand in the PCW channel. We set up a small team, and since then, they are focused on this growing channel, selling landlord, van and trades person products, and they're due to launch a shop and business from home product very soon.

At H1 this year, Churchill had grown its GWP by over 60% year-on-year. For 2021, we expect premiums to reach in excess of ?25 million.

Moving on to slide 24. We're increasingly seeing an overlap between our Commercial and Personal lines businesses and so we have continued to build expertise in a range of areas that we believe will also help a wider group.

Starting on the left. We have a number of partnerships that enabled us to build capability in the increasingly popular car subscription space. And I've already mentioned our partnership with (inaudible) where we're providing motor insurance to customers within their monthly car subscription.

We believe that car subscriptions will become increasingly important for customers making the transition to electric vehicles. Clearly, sustainability is a huge focus for us and at the start of this month, we launched a new EV proposition with a company called Zoom EV, with the mission to make electric easy.

We're offering new Direct Line car customers a free bundle of EV essentials, such as discounts on public charging points, fitting of home charges, and reduced costs on home electricity. In the Investor Insight Session at the end of June, Penny and the Claims management team spoke about our expertise in repairing electric vehicles, and all the activity that we have in trade to prepare for the growing demand for them. This proposition builds on that expertise and seeks to help our customers make the switch as easily as possible.

So, to close. Hopefully, we've shown you today how we've managed to transform our commercial business. Commercial is an important part of the Group, both in terms of the diversification that it brings and through its focus on innovation. We intend to increase the pace of change in the coming years, harnessing our multi-distribution strategy and utilizing the tools, which are now embedded in our business, whilst looking for new emerging trends.

We've already proven, we know how to succeed in the SME market, but we know there is more to go up, both through targeting growth through our existing products and by increasing our customer footprint. I've now spent 11 years leading this business. And I

remain as excited as ever about the future of our Commercial business. I'll now pass you back to Penny to close and open for any questions.

## **Penny James** {BIO 15157212 <GO>}

Thanks. Okay. While Jon sits down, I just want to take the opportunity to thank Jon, Sonya and Rebecca. I'm enthusiastic about giving you the chance to understand our business better by meeting the teams who drive it forward, but I also recognize that takes a considerable effort on their part. What I really want you to take away from today, is the passion, the expertise, and the energy that sit behind this Commercial business and the opportunity that lies ahead for it.

I'll pause there and then open it up, and enable you to ask questions of the team. So, I'm going to hand over to Molly who's going to coordinate our Q&A this afternoon. Molly?

## **Questions And Answers**

### **Operator**

Question And Answer

Thank you. (Operator Instructions) The first question comes from the line of a Freya Kong calling from Bank of America. Please go ahead.

### **Q - Freya Kong** {BIO 20097488 <GO>}

Hi guys. Thanks for the presentation. Inside I think you talked about growth expected to slow in commercial. What sort of growth should we expect going forward and is this slow down because you expect the cycle to turn or something else? And secondly, what is your view of competition in the SME market and who do you see as your key competitors as you move into the medium segment, what sort of commercial risks or customer segments are you looking to target? Thanks.

### **A - Mark Evans** {BIO 21104710 <GO>}

I'll take the first question on future growth and then I'll pass to Sonia to cover the question on who we see as our key competitors in the M or SME. So look, I mean you've seen hopefully that we've been on a tremendous journey. We've now got a fantastic range of distribution channels, we've got investment in technology which means that we have a huge amount of confidence in our pricing capability.

We think our service offering is one of the best and that all points towards a very high level of confidence in our ability to grow in a hard or a soft market. I mentioned in my presentation that many of our initiatives have landed at a particularly good point in the sense of the market has been hard particularly in 2021 and to a degree in 2020, and that certainly helped us. But my belief is that we can continue to grow I think Penny when she spoke last week referenced the fact that, we would expect growth in the mid-to-high

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single digits after or in a different market in different market conditions. And I think that's I think that's good guidance. Sonya, medium.

## A - Sonya Bryson

Yeah. So I guess, the first part of the question who are our competitors. The really good news is there are existing competitors. And so we already know lots about them, we know about their footprint, we know where we kind of bump-up against them. And we also know why we're different and we value why we're different. In terms of the types of business that will grow into, I mean this is much, this is very much about growing into our existing footprint.

So we're not changing our retention we're not changing our reinsurance anything like that it's just about using more of the space that's available. And so, we will do things that aren't we're not typically known for in NIG, but it's pretty common place in the M space. I'm not going to go into product details because we've not released that yet, but we will be having a quite controlled look at distribution about who we give access to those products to. Because we want to do it in a controlled and measured way, but a very determined way. Thanks Freya. Molly?

## Operator

Thank you. The next question comes from the line of at James Shuck calling from Citi. Please go ahead.

## Q - James Shuck {BIO 3680082 <GO>}

Hi. Thanks. Good afternoon, everybody. Two questions from me. First the just on NIG. It does fit strangely within the portfolio, it's a B2B business essentially in the rest of Direct Line is predominantly retail one, and it's broke a business. So, you just kind of elaborate a bit on why you're committed to that, wouldn't it make sense as being a home with someone else?

And then secondly, Direct Line's of business, I mean the growth has been okay over the last decade or so, we would still doing only about GBP150 million in premium. If I look across the pond for the U.S., I can see some very interesting startups are growing much quicker than that. I'm just keen to get your views about the structure of the U.K. market and whether it's different to the U.S. and why the U.S. seems to be accelerating much more quickly when it comes to the solar platform? Thank you.

## A - Penny James {BIO 15157212 <GO>}

I'll take the first one, John might want to comment on the second one, I suspect. Look, I've talked about where NIG fits before. So yeah, it's a broker business. But actually we are all about kind of people and small businesses so it fits across the portfolio in that sense.

It's delivering a strong return, it wasn't several years ago, but it certainly is now, so that's another positive thing and I think what the team have given you today is several examples of where there are crossovers and learning's moving between the portfolio and different

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directions, whether it's pricing or underwriting agile ways of working EVs, some of the data techniques which run across the group.

So for us yes, it's a slightly different distribution channel route than we use in other spaces, but actually there's a huge amount of synergy across the group and that's the reason we stand behind it and are proud to own it. John.

## **A - Jonathan Greenwood** {BIO 17958326 <GO>}

Thank you Penny. So the U.S. versus the UK SME market and Direct specifically. So I think there's a point of real difference and then I think there's a point of real similarity. The point of real differences is the commercial insurance market in the U.S. I think is structured very differently, the state-by-state nature of the U.S. market. I think in itself is fundamentally different to the UK. So I don't draw too many parallels other than to say that we certainly visited some of the U.S. startups and looked at their journey.

And one of the things that they have in common with us is a commitment to increasing the make their businesses digital and data-driven and we're doing the same thing. And we believe that the kind of trends in society more generally, support the shift towards commercials as particularly small commercial businesses, buying directly.

And you'll have seen one of the investments that we've made is in the new platform for DLG has given us the ability to produce products on a modular basis. I think Rebecca referred to it as a pick-and-mix, so it's extremely flexible. We couple that with digital journeys, which are very intuitive and then our expertise in pricing and I think we've got a very powerful combination of strength within the group that mean that as that trend continues, we're very well positioned to take advantage of it.

If you were to break down the Direct Line for business performance, the fastest-growing part is the part, which is focused on small businesses as opposed to landlords and vans. So we're getting double digit growth in that particular part of the business. So maybe more in common with some of the other businesses that you've observed in that sense.

## **A - Penny James** {BIO 15157212 <GO>}

Brilliant. Thanks, James. Molly, have we got more questions?

## **Operator**

The next question comes from the line of (inaudible) calling from Barclays. Please go ahead.

## **Q - Analyst**

Hi. Good afternoon. Thank you very much. I've got a couple of questions. The first one is perhaps on some midterm targets related to profitability of the commercial. I appreciate you might not give precise numbers here but can you guide us at least where --

commercial stand within their 93% to 95% range and how do you think about the cycle there?

And the second one I guess, one of the purpose of the session at least in my mind has been to see what the benefits of the transformation and commercial can mean to the rest of the businesses and motor and home. So, just wondering whether you could maybe draw some parallels of what has worked in commercial irrespective of the cycle because quickly in commercials you've highlighted you had the benefit of hardening weights and motor and home you might or you might not necessarily next year? Thank you.

**A - Penny James** {BIO 15157212 <GO>}

Okay. John, do you want to comment on the first one on and then Neil may want to add?

**A - Jonathan Greenwood** {BIO 17958326 <GO>}

Yeah. I mean, we operate quite short answer we operate within the same range. We've been moving toward that you'll see that we're now within the range and that's where we intend to stay.

**A - Penny James** {BIO 15157212 <GO>}

That's probably covered it. So read across I mean, I think what are we saying? We're saying that a lot of the things than transformation effects that have happened in commercial that we've driven there. We're also driving in motor and home although homes probably a year or so behind the others. So in that sense it's summer and commercial yes had a few tailwinds from hardening at the bottom end of the market.

But we're convinced this growth there regardless of that, because of the things that we've done on pricing because of the automation and technology that's gone into customer service and broker service specifically, because of the use the use of data. Now, if you look across the group of what's going on we're investing in data architecture and use of data group-wide.

So not just in commercial we've put the new motor system in over the course of this year, which massively improves the functionality for our pricing colleagues and so we have a backlog of things that they are working through to take advantage of that they have not been able to do in the past and so the shorthand is it we've got a particular thing to do with pricing practices that will juggle around, where rates at across the market in a few weeks time.

But actually the fundamentals behind that of the investments that we've made in commercial, those similar Investments are going into motor and a coming on stream and a notch behind that and home as well. So I think there is some read across that there are benefits to come through in other parts of the opposed that I think. Molly, we've got another question.

**Operator**



The next question comes from the line of Faizan Lakhani calling from HSBC. Please go ahead.

**Q - Faizan Lakhani** {BIO 20034558 <GO>}

Good afternoon. Thank you for taking my questions. So the first question is on the medium size risk that you're looking at. Historically, the quite volatile relative to the small segment of the market, you look to use more reinsurance here?

And second question is on the competitive environment. A lot of your commercial peers have potentially scarred by the business interruption saga if you can call it that. How much of the benefit do you see in the market share from the players who were sort of publicly sort of struggling with ABI scandal? Thank you.

**A - Jonathan Greenwood** {BIO 17958326 <GO>}

I'll certainly take the first of those questions. So we believe the reinsurance program that we have in place is well-suited not just to the smaller risks that we that dominate our boat but also to medium-sized risks, so we're quite comfortable with the existing reinsurance program.

In terms of business interruption and the effect its had on our competitors you can see quite mixed results from our competitors in terms of their performance over the last two years I wouldn't be specific about where in particular we've won business from, but it's undoubtedly true that whilst our competitors were coping with or dealing with the impact of business interruption claims that would have had an adverse effect on them which we will certainly have had some benefit from consistently which particular insurers we've won business from.

**A - Penny James** {BIO 15157212 <GO>}

I think the only thing I'd add to that is we also see sell-through the pandemic service differentials. So one of the things the technology I think is enabled as us to carry more volumes on the servicing side. So, I think there are a number of factors as to where they've been differential performances between the competitors in that space.

**Q - Faizan Lakhani** {BIO 20034558 <GO>}

Who are your main competitors across SME commercial space?

**A - Jonathan Greenwood** {BIO 17958326 <GO>}

I'll pass that question to Sonia.

**A - Sonya Bryson**

All names you know already. So, Aviva, AXA, Alliance, RSA, Zurich, Gouveia, AGS, the list goes on, some are clearly better than others because where the focus is but almost everybody has a finger in the SME space. And then you've got GAs and startups also kind

of coming to the table as well. So that's what I mean by it is a really crowded space and so you really need to know what brokers respond to, to be able to come top of the pile.

**Q - Faizan Lakhani** {BIO 20034558 <GO>}

Thank you very much.

**A - Penny James** {BIO 15157212 <GO>}

Thanks, Molly. Have we got another question?

**Operator**

We do. (Operator Instructions) The next question comes from the line of (inaudible) calling from Panama Gordon. Please go ahead.

**Q - Analyst**

Hi. Good afternoon, everyone. Thank you for taking my question. My first question. Do you have any M&A at pockets in the commercial space? And my second question is on the current inflation, because on the -- you've got you seem to have a lower claims information versus your peers, you've got the benefit from those and the presence of your own. You have similar and competitive advantage in your commercial lines. And what does that look like and getting the inviting claims inflation outlook? Thank you.

**A - Penny James** {BIO 15157212 <GO>}

Okay. So, I've got the second question. So, it wasn't a very clear line, so I apologize. Let's do the second one on claims inflation, just while John take you through that one. Can you just repeat the first question for us?

**Q - Analyst**

Yes. My first question is in the commercial line. Do you have any M&A at pipe?

**A - Penny James** {BIO 15157212 <GO>}

Now -- right.

**A - Jonathan Greenwood** {BIO 17958326 <GO>}

So, I didn't quite catch the question, but I'll try and anticipate what I suspect was in there, which is what are we seeing on claims inflation and how we feeling about it.

**A - Penny James** {BIO 15157212 <GO>}

And we get online from personal lines design product across commercial. Yes.

**A - Jonathan Greenwood** {BIO 17958326 <GO>}

So, we benefit from many of the taking that second and his first, we benefit from many of the same advantages that our personal lines colleagues do so for instance, the because they've been repaired in the commercial book also go into the arcs and therefore, we were able to have a greater control of inflation as a consequence of that. In terms of what we're actually seeing in inflation we've not yet, seen a material shift in inflation on any of our lines of business there it's still essentially finishing still within the range that we would anticipate.

The good news is that we have been consistently carrying premium rates ahead of claims inflation. So we have some headroom from that perspective and of course as and when and if we were to see changes in inflation, which we very watchful of the moment we would respond to it appropriately. Second question.

### **A - Penny James** {BIO 15157212 <GO>}

M&A, strategic M&A. I think the short answer on that is we're open-minded, we monitor the situation if the right book came across and we are comfortable with it then we would certainly look at it. But nothing's report at the moment. Molly, have we got any further questions?

### **Operator**

We do. The next question comes from the line of Abid Hussain calling from Shore Capital. Please go ahead.

### **Q - Analyst**

Hi there, thanks for taking my question. Firstly on investment spend increase. How much are you spending on these platforms? And how much is required to maintain these systems or keep them cutting edge going forward?

And the second question is on the transformation journey. I think the commercial transformation has taken five years since you decided to upgrade the systems. Just wondering where we are journey for the other businesses, the retail businesses. And it is the cost to build out on those platforms lower given the learnings that you've had so far from come to commercial business? Thank you.

### **A - Jonathan Greenwood** {BIO 17958326 <GO>}

So I take the first of those two questions. I think the good news is the heavy lifting is complete now. So, in terms of the investments that we needed to make to upgrade our platforms, they are largely done.

Of course, we will continue to invest but the sums required to keep those systems updated a far more modest on what be specific about the amounts that we spend or intend to spend going we intend to spend going forward, but I think the overarching point is that the heavy lifting is done and it's now just a question of keeping those systems updated as and when.

## **A - Penny James** {BIO 15157212 <GO>}

I think on more broadly at across the business. Look, we've been investing in the technology platform across the business for some years now. So and if you think about it we replaced everything on motor pretty much there on rescue with a place of finance systems. We've done a lot of the infrastructure with cloud enabled everything with invested in data and I could go on.

So we are a long way through that journey and the motor kind of policy administration systems the claims upgrade and the new pricing systems going in earlier in this year is a pretty critical landing for us in that Journey. So we should see the cost of investment in technology come down and normalize over the next year or two and we've given kind of that sense for what's left to do. Well right now, we're focused on kind of taking advantage of the systems that we put in, in particular in pricing.

So getting the backlog of external data sources and models and in plate that we've wanted to do for some time. We continue to invest in data and we're beginning the process of bringing home onto the same architecture as the motor system, which is a much smaller program than the original ones. So, we're a long way through the journey on retail as well, and starting the process of kind of taking the benefits at what we've built rather than just being in build phase. Molly?

## **Q - Analyst**

All right. Thank you.

## **Operator**

Thank you. The next question comes from the line of Gordon Aitken calling from RBC. Please go ahead.

## **Q - Gordon Aitken** {BIO 3846728 <GO>}

Yes. Hi, Penny. And thanks for an excellent presentation. So just a couple of questions, please. First on just growth for the market as a whole, you absolutely set out your competitive advantage. But if I look at ABI data assay for the market as a whole. It's been a shrinking market and big shrinking market property.

This and I'm going back over 10 years, motors is not as bad, but it still a down market. And your growth of 4% per annum is particularly impressive in the backdrop of that. But what's your base assumption for medium-term goals for the market as a whole? That's the first question.

And second, can you talk a bit about regulation. And obviously, it's a huge amount going on the personal line site. And so, what's the outlook on the commercial side? And is there a feeling that what you're seeing on the personal lines I'd like actually approaching of you is what that group into the SME market at all? Thanks.

## **A - Jonathan Greenwood** {BIO 17958326 <GO>}

I'm going to take them in reverse order. The second question around the impact of pricing practices on commercial or the commercial division within DLG is very modest, because it only really affects a subset of our van business. So in that sense at this moment in time very modest, we obviously keep an eye out for any future changes but at the moment that's the only one that's on the horizon.

In terms of growth in the market, I think what particularly excites us has been the growth in the S and the micro of SME. And that of course, is highly relevant to our portfolio of businesses because they're very much focused on that end of the market. So difficult to see precisely what impact the pandemic is going to have when very unusual times but we would still see positive prospect for the UK commercial sector and in particular, micro and S of SME, which is our is our particular focus.

## **A - Penny James** {BIO 15157212 <GO>}

Thanks. Molly, have we got the other questions?

## **Operator**

Yes the next question comes from the line of Alan Devlin calling from Goldman Sachs. Please go ahead.

## **Q - Alan Devlin** {BIO 5936254 <GO>}

Hi, guys. Thanks for the presentation.

## **A - Penny James** {BIO 15157212 <GO>}

Hi. Alan.

## **Q - Alan Devlin** {BIO 5936254 <GO>}

A couple questions for me. First of all, the NIG is focused on the year the broker market, while the deal for businesses focused is a disruptive brand focusing on disintermediating the brokers. Is there any, any conflict are and how do you manage the conflict of the risk is you know the core brokers on the NIG side?

And the second question on the mortar and van part of the business which like 20% of both businesses, do they have the same access to the garage network as a personalized business house and if so, what kind of competitive advantages that give you in that part of the market? Thanks.

## **A - Neil Manser** {BIO 5571223 <GO>}

So the conflict question first, I've run this business for ten years now. So it's a question that I've often faced. I can honestly say is not caused as any problem having a commercial business which contains within it an offering that is direct and an offering that is through insurance brokers.

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We quite simply aim to be brilliant in both of those channels and we support our brokers wholeheartedly, providing them with the best possible service as we can and I think you've seen in the growth figures that Sonya has talked about that we've been well rewarded for the quality of the offering that we have through NIG. Ultimately customers will decide which channel they wish to purchase their insurance products through. The great thing that we have is the ability to serve them wherever they choose to buy their insurance.

Your second question that -- repair centers. Yes, we do use our repair centers. For the direct book, we use repair centers roughly the same proportion as in the personal lines business slightly less so for the repairs that come through the intermediate channels and it gives us all the same advantages around control of costs that are personal lines colleagues benefit from.

**A - Penny James** {BIO 15157212 <GO>}

Thanks, Alan. Molly, have we got any more questions?

## Operator

We have no further questions coming through on the phone line. So, I'll hand the call back over for any concluding remarks. Thank you.

**A - Penny James** {BIO 15157212 <GO>}

Brilliant. Thank you. And thank you for all the interest and the questions. So good to keep us on our toes if nothing else. So look, thank you for your time today. I think hopefully what we've conveyed as I say is the passion and the energy and the expertise that's driving this business and that it has real potential ahead of it.

But with that, I shall say, thank you for joining us and enjoy the rest of your day.

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