

Generating value and sustainable returns

We use a multi-brand, multi-product and multi-distribution channel business model, aiming for each of our brands to offer a specific proposition to a distinct customer segment. We believe that this approach, when combined effectively with our significant scale, should help us achieve high performance in distribution, pricing, claims and cost. In turn, this enables us to aim to generate value for customers and sustainable returns for our shareholders.

Generating value for our customers through our people

Our customers

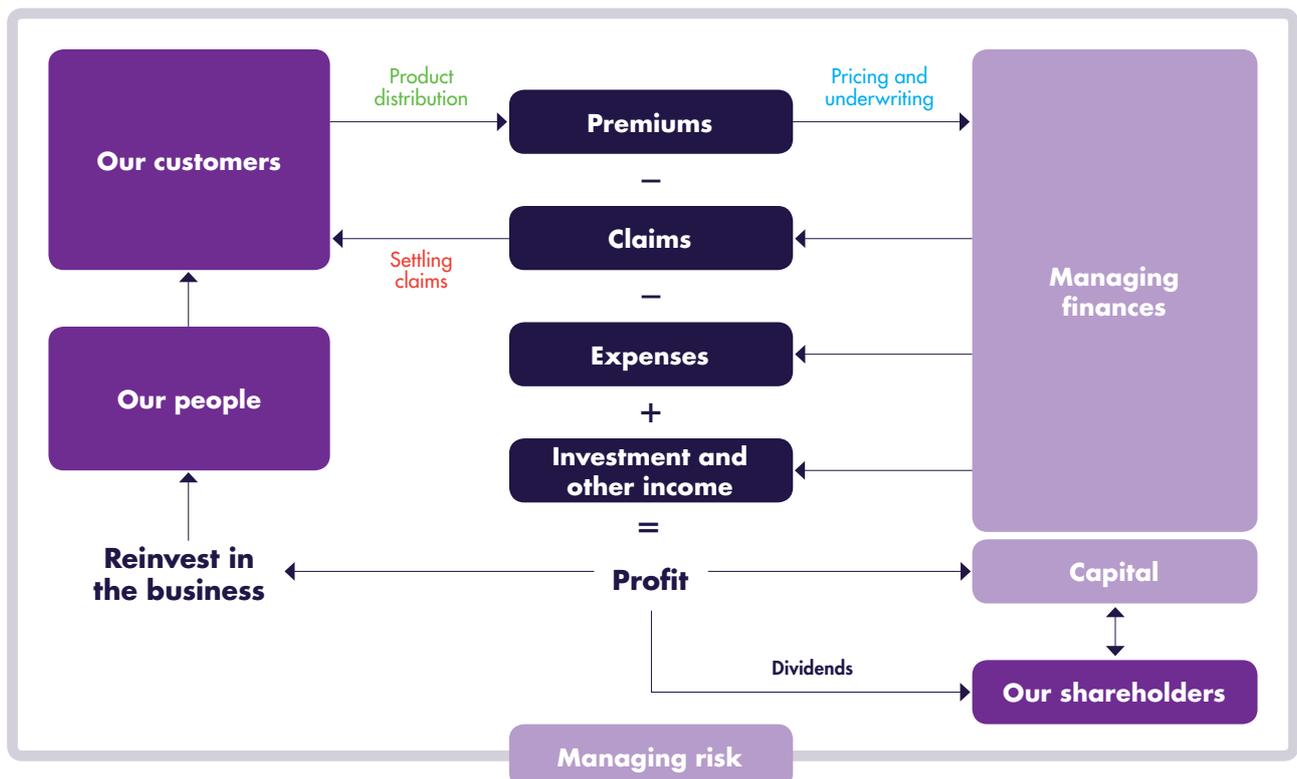
Our business model starts with our customers, whom we aim to keep at the core of what we do. We aspire to give them the products that best suit their needs and encourage them to expect a high quality of service throughout their relationship with us. We also strive to be a business that can adapt to their changing needs. We treat each phase of the customer journey as an opportunity to provide an excellent service and outcome from the moment customers select our products, through to the time they make a claim or need to resolve an unexpected event.

Our people

Everyone – from front-line staff, who interact directly with our customers, to our people in support and central functions, who run the processes that support our products and services – plays a part in ensuring we are meeting customers' needs. Without our people, we could not generate value for our customers and sustainable returns for our shareholders.

Our shareholders

Our shareholders form a crucial part of our business model by investing in us, in the expectation of achieving a return. We aim to deliver value for our shareholders by sustaining the generation of business profit, which is reinvested in the business or distributed to shareholders in the form of dividends.



Our focused processes



Product distribution

We aim to make our products easy to access and to give our customers what they are looking for, to ensure they are appropriately covered when unexpected events happen.

We apply a multi-brand, multi-product and multi-distribution channel business model to sell to retail customers and businesses. Products can be purchased online, including via PCWs, by phone and indirectly through partners and in our Commercial business, via brokers. Each brand provides products targeted at one or more insurance segment: motor, home, rescue, pet, travel and commercial. By tailoring the mix of distribution channel for each product, we can offer our customers a combination of brands, products and services that best suits their needs.



Pricing and underwriting

The scale of our business, which has been operating for almost 30 years, gives us deep insight into the risks we underwrite, which enables us to improve pricing accuracy. It also allows us to invest more heavily in data and achieve efficiencies, which means we can more accurately set the appropriate price for the risks we underwrite.



Settling claims

If the time comes to make a claim, it is at that point that customers see the value of their policy. Through active engagement with our customers, we aim to settle their claim as quickly and as easily as possible. Doing this the right way helps us to demonstrate the value of the products and services we provide and manage our claims costs.

Our disciplined approach

Managing finances

We seek to ensure that our business is well governed and controlled. We aim to manage our finances carefully by spending money on items that add the most value to our customers, balancing this with the need to generate a suitable and sustainable return to our shareholders.

We hold assets in excess of our expected liabilities in the form of capital, which is designed to absorb unexpected losses that might occur, as well as to meet regulatory capital requirements.

We have a conservative approach to reserving and this may result in significant prior-year reserve releases.

Managing risk

We ensure that our products meet regulatory standards and that customers understand what they are purchasing from us. We also aim to make sure we price our policies prudently and we invest our assets appropriately to minimise any potential losses. We mitigate risks by adopting policies and minimum standards that are regularly reviewed and updated to ensure that we are in line with the risk appetite set by the Board. Regular reviews by external experts supplement this internal control framework.

New offerings



Pricing and underwriting

Our new customer offerings, such as our telematics black box and smartphone apps, are helping us to improve our pricing models.

In June 2013, we moved from a test and learn phase to launching our telematics propositions on our own motor brands, Direct Line, Churchill and Privilege. This included our black box solution for young drivers aged 17 to 25, and our downloadable app available to all ages. We are now selling approximately 400 telematics policies a week and have sold 12,000 to date. This represents a growing proportion of our new motor business and we believe telematics has an increasingly important role to play in motor insurance, not just with young drivers but across the market.

12,000

live telematics devices to date

1 Have our black box fitted to your car or download the smartphone app



2 View feedback on how you're driving

3 Safe driving behaviour could save you money on car insurance



Benefits to young drivers

Young drivers as a high-risk, high-premium group are expected to gain the greatest benefit from telematics.

We are seeing that around one-in-five Direct Line new policies taken out by under 25s over the phone have selected telematics. This also allows feedback to customers on their driving, which is anticipated to reduce the likelihood of accidents and improve safety on our roads. This is a really positive step and

will help with our ongoing campaign to the UK Government to contribute to an improvement in young driver safety. Our extensive data and large customer base mean we, alongside specialist partners, are well positioned to capitalise on this growing market. To date, we have gathered 22 million

miles of customer data, giving us a more accurate picture of our customers, how they use their cars, and what cover is suitable for them. Once we have analysed this data over a period of time, we will have the ability to price and underwrite more accurately.



Timely updates



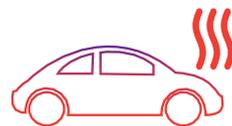
Settling claims – Motor

Our claims transformation programme is improving the way we deal with customers, making it smoother and faster.

Our ongoing roll-out of ClaimCenter has passed the milestone of registering 1 million customer claims, as well as bringing Commercial and Italian motor claims onto the platform. All new customer motor and home claims for our Direct Line, Churchill and Privilege brands, as well as some of our partnership brands, are now handled through the system.

Over
1,000,000
claims on the new system

1 Notify us of your accident



2 Damage assessed

3 Your car is taken in by our garage

4 Check the progress of your car on the portal



5 Keys to your car returned



Improving our customers' experience

We identified that providing timely updates during car repairs is a key challenge in our claims business and important to our customers.

Therefore, to resolve this in our Motor business, our customers are now able to receive regular updates on when their car will be ready.

This transparency should give them peace of mind and, once active across our entire accident repair centre network, is expected to reduce call volumes and avoidable frustrations.





Weather response



Settling claims – Home

Over the last year the UK experienced some of the worst wind and rain storms in a quarter of a century, leaving many homes damaged and without power.

Before each storm hit, we put our severe weather plans into action, making sure there were extra staff on the phones and on the ground to help our customers. On the day of greatest impact, we received more than double our normal customer call volumes. We also deployed our emergency response vehicle, CHARLIE, to the worst affected areas to help customers on the ground get on with the claims process.

1 Before the storm hits, we ensure there are extra people available to help you on the phone and on the ground



2 CHARLIE, our emergency response vehicle, is sent to the worst affected areas

3 Contact us as soon as possible to make a claim



4 Property advisers attend your home and instantly send through list of damage

5 Damage repaired and claim paid



Supporting our customers on the ground

We have been looking at how we can best use our people on the ground to support our customers when they make a home claim.

To make access to us more convenient, we are introducing the use of smartphone technology to capture and send claim details while connected to a customer services

adviser. The cost of the repairs can then be priced using our home estimation tool, thereby getting the claim moving much faster.



Where the storm hit the UK in November 2013

