

Embedded in our values



Jane Hanson, Chair of the Corporate Social Responsibility Committee

“During 2013, the Corporate Social Responsibility Committee has overseen the development of the Group’s approach to CSR, taking care to embed it in Direct Line Group’s core purpose and values. This ensures CSR is relevant to every employee, creating a clear value chain – doing the right thing builds trust, trust builds reputation, and reputation builds value – and weaving it into business processes.

“This approach reflects the way the Group and I believe our customers want us to do business, and ensures our strategy mirrors the themes of empowerment and trust which the Board actively leads in the Group’s relationships with its stakeholders.

“Against the backdrop of a challenging operating environment, I am pleased to report that good progress has been made in establishing solid foundations to enable us to live up to our broad responsibilities as Britain’s leading personal lines motor and home insurer.”

Our approach and priorities drive a clear value chain; doing the right thing builds trust, trust builds reputation, and reputation builds value.

Approach and priorities

Working in partnership with the business-led charity Business in the Community (“BitC”), we were able to make exciting headway in rolling out our corporate social responsibility (“CSR”) initiatives. Blending input from employees at all levels, representing a wide range of stakeholder interests, together with BitC’s expertise in the issues material to our business, we advanced our CSR programme through four key strands – sustainable business practices, employee experience, community, and energy and environment. These strands continue to provide the framework for our CSR activity, against which our key performance targets and sustainability metrics are tested and monitored. An absolute priority for the Group is to sustain a high rate of employee engagement, and we were pleased that in spite of the significant amount of continuing change in the business, 71% of our employees reported themselves as favourably engaged in our Employee Opinion Survey conducted in October.

Governance

To ensure the delivery of our CSR programme, we have established a robust governance structure, with clear roles and responsibilities. This comprises the CSR Committee, see page 70, which has complete oversight of our strategy, policy and programme, and a CSR Advisory Group, formed of senior managers and chaired by a member of the Executive Committee, which leads CSR within the business. The Group Communications team has functional responsibility for executing the strategy and managing the CSR programme on a day-to-day basis. In addition, a clear policy framework has been developed and, in keeping with best practice, our policies are published on our website.

Sustainable business practices

Our products, services, business processes and supply chain have a tangible impact on each of our many stakeholders. By aiming to embed CSR in all our enterprise’s activity, we hope to deliver better outcomes for our customers and our wider stakeholders across society.

Working with Government

The Department for Environment, Food and Rural Affairs has cited flooding as one of the key risks facing Britain. As one of Britain's largest home insurers, we want to help address this risk. In June 2013, the UK Government and the ABI published a Memorandum of Understanding on flood insurance, which Direct Line Group played a key role in negotiating, as well as preparing for the creation of Flood Re. This is a vital step in seeking to make insurance affordable and accessible to high risk customers. We are pleased the UK Government has made significant commitments to help prevent and mitigate the effects of flooding, most notably not to reduce spending on flood defences.

The industry has compromised to reach agreement and, although there remain a number of issues that need to be overcome, it is committed to continuing to work closely with the UK Government with the objective of ensuring these can be resolved. In the meantime, we will meet our flood-related commitments to our customers under the existing Statement of Principles.

In June 2013, we hosted a debate in Westminster to discuss the topical issue of insurance for young drivers. Young drivers aged between 17 and 24 represent 12% of licence holders, but account for 25% of all UK motor accidents where someone is killed or seriously injured. As a result, this demographic group of motorists face higher insurance premiums. The debate brought together Members of Parliament, national and trade press, road safety practitioners, academics and trade bodies to discuss how to improve road safety among young drivers. Ideas included a graduated driver's licence, a minimum learning period, a lower tolerance limit to alcohol, and restrictions on passenger numbers and night-time driving. We encourage the Government to release its Young Driver consultation paper.

A number of our Executives are actively involved in various industry bodies, including the ABI, FCA Practitioner Panel and Financial Ombudsman Service ("FOS") Insurance Industry Steering Group; and Tom Woolgrove was elected President of the Chartered Insurance Institute. This involvement informs our policy insights.

We recognise that there is a general concern that lobbying can have an inappropriate influence on government policy and therefore we engage only in public policy debates that have an impact on our business or our stakeholders. We do not support party political interests or make political donations.

600,000

new car parts saved through our 'repair not replace' initiative

Innovation

We believe that ultimately customers determine our future. That is why we are investing in technology to help give our customers the products and services they want and need.

We have developed an Optimum Repair Process ("ORP"). ORP is a new, environmentally sustainable approach to modern vehicle crash repair, which cuts waste and emissions by encouraging the practice of 'repair, not replace'. This dramatically reduces the volume of new parts used. ORP has been supported by our research partner, Thatcham, which provides technical training courses for vehicle damage assessors.

On average, it used to take 10 days and 16 hours' labour to complete a repair. In working time, a vehicle could be in a body shop for 64 hours awaiting repair, preventing other cars from being serviced. Much of that time was wasted waiting for parts. The repair industry had become accustomed to replacement rather than repair, creating an over-reliance on expensive new parts and the accompanying deskilling of many technicians. This, in turn, increased both repair times and costs, which affected customer satisfaction.

As a result of ORP, we are using around 200,000 fewer new car parts per annum.

Telematics

In response to improving technology and customer interest, during the year Direct Line launched various telematics propositions. This technology allows us to gather information about customers' driving, recording speed patterns and distance travelled, which can be connected to the types of roads used and at what time. It also monitors braking and cornering to build up a picture of a customer's driving style so that we can better assess each person's individual risk. This should lead to greater pricing granularity for drivers opting for telematics.

For higher risk motorists, such as young drivers between the ages of 17 and 24, who tend to pay higher premiums, telematics provide a way for these customer groups to pay only for how they drive, rather than also pay for how other drivers behave on the roads.



Corporate social responsibility continued

Above all else, we believe the use of telematics technology encourages safer and more considerate driving, which will ultimately lead to safer roads for all. It is an excellent way of encouraging drivers to manage their speed – one of the biggest causes of collisions on European roads.

Other initiatives

Other initiatives to make things better and easier for our customers include piloting the capability to use smartphones to send us live footage of their home claims so we can settle their claim far quicker. Smartphones can also be used to give claimants a live view of progress on their car repair as it moves through the accident repair centre process.

Supply chain

Last year, we began a significant piece of work to ensure we were properly managing the risks and improving the sustainability of our supply chain. We reviewed and republished our Ethical Code for Suppliers and reworked the selection criteria and contract terms for new suppliers. Our focus in 2014 is on developing our supplier management programme. We were also proud to sign up to the Prompt Payment Code advocated by the Department for Business, Innovation and Skills, which is aimed specifically at alleviating the pressure of delayed customer payments on smaller businesses that tend to be more vulnerable to experiencing cash flow problems. Signatories to the code commit to pay suppliers on time (the default period being within 30 days), give clear guidelines on payment procedures, and encourage lead suppliers to adopt the code in their own supply chains.

Living Wage

While not accredited to the Living Wage Foundation, we ensured that all our employees were paid at or above the Living Wage. We are also factoring the Living Wage into contract renewal discussions with external suppliers.

Responsible investment

During the year, we set out our approach to responsible investment. The asset classes in which we invest are cash, government and corporate debt securities, and commercial property. We do not hold equities or have direct equity

investments and are therefore unable to use share ownership to influence other companies. Although we do not set ethical parameters for our asset managers regarding the issuers in which they can or cannot invest, we have, however, committed to mandating only those external asset managers who demonstrate a strong commitment to using their market leverage to support social, environmental and ethical (“SEE”) objectives. We favour those managers with an active, ongoing demonstrable engagement in local or global SEE initiatives and expect, at a minimum, our managers to be signatories¹ to the UN Principles of Responsible Investment. We will meet with each of our asset managers annually to review in detail the initiatives they have taken and successes accomplished.

Employee experience

Our focus continues to be on our people strategy, to build the future capability required to achieve our strategic objectives and fulfil our people. We are committed to strong employee engagement, which we believe underpins the quality of service we offer our customers.

Engagement

We continue to transform our business. Since the start of our cost saving initiatives there has been a reduction of 3,200 roles. While necessary in order to sustain our business in a highly competitive market, such initiatives inevitably impact on the engagement of our employees. In line with our values, we have worked hard to ensure that as much information as possible was communicated, confirmed that our redundancy terms would remain unchanged during this initiative, and fully consulted our employee representatives.

Anyone at risk of redundancy had access to our redeployment support and where redundancy resulted, individuals had access to both redeployment and outplacement support.

Clearly this was a very difficult time for those leaving the business, but also unsettling for those remaining. Not surprisingly, it had an impact on morale, as evidenced in this year's Employee Opinion Survey, although it was pleasing that overall engagement remained high at 71% relative to historical results. This survey also showed that there is a high degree of

Note:

1. One fund manager was selected before this new policy was adopted and our approach is to encourage them to move towards becoming signatories in due course.



employee understanding of the strategic direction in which the business is travelling and how individual roles relate to that journey. At the same time, despite the significant amount of business change, our employees have maintained a strong customer focus and still want to make a positive difference to the experience we give our customers.

Recognition

Recognition is an important element of engagement. The Group has established a number of initiatives to recognise the efforts and contribution of our employees. These range from formal reward arrangements to informal recognition programmes. Examples of the latter include our Service Awards, which were relaunched in 2013, to recognise loyalty; and our Excellence Awards, which recognise employees for outstanding service, innovation, relationship building or leading by example. We also run a Chief Executive Awards programme. These awards recognise those individuals who clearly demonstrate behaviours in line with our corporate values, which are at the very heart of our culture and demonstrate the great things our people do for each other, our customers, and our business every day. Last year, there were a record 6,000 nominations. Those shortlisted attended an awards event where the entertainment was provided by our own people, in the form of 'Direct Line Group's Got Talent'.

Development

Our Leadership Framework sets the expectation for leaders at all levels. We believe everyone can show leadership in their role. With the help of our employees, we have created a framework which outlines the behaviours, personal qualities, skills and knowledge needed for individuals to be successful in their role. The Leadership Framework is specific to Direct Line Group and helps drive the performance of our people.

For our people managers, there was significant focus this year on creating an environment where continuous and flexible development opportunities were made available. This challenged the traditional learning methodologies, reducing the dependency on face-to-face delivery, and has been built around a self-directed learning model where the emphasis is on the job development.

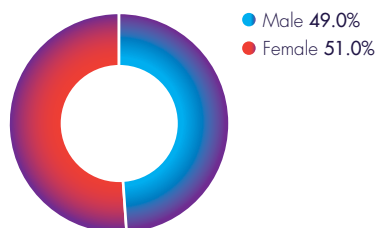
Over 1,000 people in our Claims business have been supported in embracing new ways of working to provide them with the skills and knowledge to handle claims in a more pro-active and efficient way.

Diversity

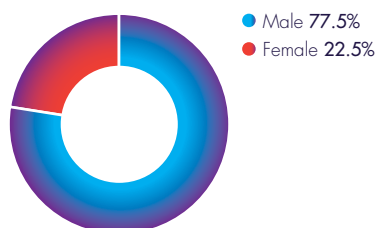
As a Group, we actively celebrate the diversity of our employees. Our Diversity Network Alliance aims to represent the full range of populations within our business and seeks to ensure we have a workforce reflective of society and our customer base. The network is still in its infancy, but we remain hopeful of encouraging 10% of our workforce to become members by the end of 2014.

Last year, the network had a particular focus on gender and working families. The ratio of female to male employees as at 31 December 2013 is shown in the charts along with a year on year comparison by headcount.

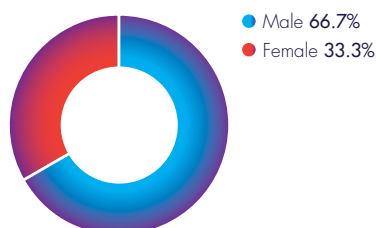
Gender diversity of all employees



Gender diversity of senior managers



Gender diversity of Board members



Gender diversity

As at 31 December	2013		2012	
	Female	Male	Female	Male
Directors	3	6	3	7
Senior managers	34	117	38	141
Employees	6,510	6,256	7,578	7,257

Our analysis has shown that we need to increase the number of female applicants for senior management positions and we shall look at ways in which we might achieve this in 2014.

Corporate social responsibility continued

Human rights

Our diversity and inclusion practices are in line with the Universal Declaration of Human Rights and we continue to work towards an environment that is based on meritocracy and inclusion, where all employees can develop their full potential, irrespective of their age, belief, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation.

Our Employee Opinion Survey indicated that 89% (2012: 92%) of respondents felt that we provide a working environment that is inclusive and accepting of differences in cultural backgrounds and lifestyles.

Through our Ethical Code for Suppliers we adhere to the core International Labour Organization standards.

Recruitment

We are actively supporting a range of initiatives to help alleviate youth unemployment, a continuing legacy of the financial crisis. During 2013, we joined the UK Government's Wage Incentive scheme and will recycle any funds received into schemes to help young people into work. We have also provided partner funding to an online resource and careers platform for 11 to 24 year olds, entitled Plotr, which helps the young get into employment through supporting internships and mentoring. Additionally, we are working with Generation Talent, a joint initiative between the UK Government and BitC, to tackle the issues surrounding youth unemployment and to support young people into work.

Community

Our aim is to build Britain's best retail general insurer. We recognise that achieving this aim requires us to play an active role in our local communities.

26%
of employees volunteered or fundraised
in company time



Volunteering

Aligned to our core business, our focus is on Making Communities Safer through improving road safety and reducing crime and anti-social behaviour. In 2013, we worked with four charities focused on these themes: Brake, RoadSafe, Catch22, and The Prince's Trust. Activities undertaken included: Community Space Challenges, which brought together our employee volunteers with young people to improve neglected community spaces; Speedwatch programmes, where we worked with local police and councils; and 'Walking Buses', which encourage children to walk to their school in an organised and safe environment. We also sponsor Brake's Giant Walking Bus initiative, which this year saw 70,000 children from 350 schools march for safer streets while they walk to school.

Best CSR Initiative

Our initiative, 'Get into Car Repairs', won 'Best CSR Initiative' at the British Insurance Awards 2013. Record levels of youth unemployment mean the young miss out on vital work experience, which may hold them back throughout their careers. It also creates the risk of a rise in anti-social behaviour and crime, which has a direct impact on our business and wider society. 'Get into Car Repairs' had a positive impact on the lives of a group of disaffected unemployed young people in Wakefield, Yorkshire, where one in three 16 to 24 year olds are unemployed. It gave 15 young people first-hand experience of repairing cars in a body shop at our local accident repair centre. They also received training on CV writing and interview techniques, as well as soft skills such as communication and team building.

675

employees took pledges for Comic Relief
and Children in Need

For Comic Relief and Children in Need, 675 employees were proud to offer their time to take calls from the public wanting to pledge donations. At a local level, our Community and Social Committees also arranged and coordinated a significant amount of charity activity.

According to our Employee Opinion Survey, last year, 26% of our staff volunteered or fundraised in company time.



Supporting employees

We align our charitable giving with the interests of our employees in two ways. We match employee donations up to £50 per month through our Give As You Earn scheme ("GAYE"); and we provide individual grants of £250 to organisations for which our employees regularly volunteer or raise funds in their own time. In 2013, we donated £115,000 through GAYE and a further £48,500 in grants. Our employees also undertake their own fundraising at work, typically for local causes, but also for major fundraising events.

Strategic partnerships

Now that our volunteering programme is established, our focus is on supporting our network of Community and Social Committees to develop their relationships with local charities and authorities. Centrally, we will focus on two strategic partnerships. The first is a continuation of our well-established partnership with Brake, with whom we plan a series of campaigns on road safety issues, for example on the introduction of 20 mph speed limits in certain urban environments. The second is with Groundwork, who deliver local community projects, improving community spaces and getting people back into work. We will look to work with them on programmes to help 16 to 24 year olds, not in employment, education or training, onto schemes which give skills and work experience, principally through social enterprises.

Energy and environment

We aim to manage our operations in a sustainable way. We seek to reduce waste and make efficient use of resources; and we aim to cut emissions, as part of the transition to a low carbon economy.

Emissions

We have established historical data records on energy use which has helped us better understand trends in our associated greenhouse gas ("GHG") emissions. Group-wide GHG emissions in 2013 were 30,624 tonnes of carbon dioxide equivalent ("CO₂e"), of which 95.1% related to our UK operations. Emissions are calculated in accordance with the Greenhouse Gas Protocol and include Scope 1 and Scope 2 emissions. More details on our emissions are given in the Directors' report on page 100.

Our emission data has been externally verified by Ecometrica. The verification statements can be found on the Group's website (www.directlinegroup.com).

During 2013, 94.9% of the Group's purchased electricity was from renewable sources on green tariffs purchased from GDF Energy and SSE in the UK, and LichtBlick and Naturstrom in Germany.

British Independent Utilities ("BIU") was appointed as our Energy Partner to advise us on procuring the energy supply for our offices and accident repair centres from 2014. Part of the agreement is for BIU to work with us to reduce our power and gas consumption over the next three years, through environmental surveys and improvement plans for our buildings. We have set a target of a 10% reduction in our gas and electricity usage by the end of 2016, against our 2013 annual consumption figures.

In 2014, we are targeting a reduction of 3% of our UK GHG emissions measured by tonnes of CO₂e.

Waste

We retendered our waste management services contract, excluding paper, for our main office sites and appointed SITA as provider in October. SITA has already significantly increased the percentage of our general office waste we recycle. Our longer-term aim is to increase recycling year on year and eliminate waste to landfill by 2016. Iron Mountain collects and recycles 100% of our waste paper. In 2013, we generated 1,355 tonnes of waste from our main office sites of which we recycled 55%. SWR collects waste from our accident repair centres. In 2013, these centres generated 1,085 tonnes of waste of which 86% was recycled or reused.

500,000

litres of water per annum saved at our head office in Bromley

Resource use

Through our desktop and printing transformation programme we are replacing our old hardware. This is expected to bring a significant reduction in both energy and paper use. Last year, we consumed some 416 tonnes of copier paper. Our default office paper has a 100% recycled content.

We are currently establishing an accurate measure for our water usage for the Group.

We have a number of local initiatives to improve our environmental performance, supported by a network of environmental champions. For example, we have made changes to the way in which we consume water in our restrooms in Bromley, resulting in a significant saving of half a million litres of water annually.

Charlton House was appointed as our new catering supplier in 2013. Significant in their selection was their sustainability credentials, including a commitment to healthy eating, a focus on sourcing local and seasonal produce, and membership of the Red Tractor Scheme (an industry recognised Kitemark covering animal welfare, food safety and environmental protection).

Business travel

We continue to seek ways to reduce business travel, including better use of technology for video and conference calls, as well as enabling colleagues to work more smartly. We appointed a new travel management company, Capita Travel and Events, in October 2013 and will work with them to establish a baseline for reporting future travel-related emissions.