

Delivering our strategy

We continue to transform our business to move towards our ambition to be Britain's best retail general insurer. Our strategy is based on five key priorities.

Financial targets

15%

Return on tangible equity¹

125% to 150%
capital coverage consistent with
credit rating in the 'A' range

2014 targets

£1,000m

Approximate total cost base²

Less than 100%
COR for Commercial division³

Guidance

95% to 97%

COR for ongoing operations^{4,5}
in 2014



Distribution

We aim to improve our distribution efficiency and effectiveness through a focus on digital capability and customer value.

We seek to understand customers' needs and provide them with products that meet their needs, offer good value and are straightforward to purchase.

We employ a multi-distribution channel model and look to optimise the mix of these channels for each of our products and brands. This includes selling our products directly via the phone and internet, through the UK's four largest PCWs, and via selected partners.

2013 progress:

- Reduced marketing spend, while differentiating product offerings
- Developed and launched two telematics propositions – black box and smartphone app
- Invested in digital content platform and web tool analytics

Priorities for 2014:

- Complete the roll-out of our new smartphone and tablet optimised websites and leverage the new digital platform
- To continue to develop and differentiate the Direct Line customer proposition
- To evolve our telematics propositions based on customer feedback and performance



Pricing

We aim to leverage our substantial data and the investments we have made to provide leading technical and market pricing.

By enhancing our pricing capabilities we can improve the assessment of the risks we are willing to accept and price these more accurately. Our customers benefit from this through more competitive prices.

2013 progress:

- Launched updated technical pricing models in Motor with further granularity
- Used improved rating models to optimise exposure in higher premium segments
- Implemented enhanced renewal management capabilities in Motor and Home

Priorities for 2014:

- 30 major programmes due to be delivered in 2014
- A number of specific pricing initiatives to enhance trading capability on PCWs
- Use telematics experience and data to support technical pricing

Notes:

1. See note 3 on page 2
2. See note 2 on page 2
3. See note 2 on page 17
4. See note 1 on page 2
5. This assumes a normal level of claims from weather events.



Claims

We aim to maintain top quartile performance by achieving efficient and effective claims management.

We have fundamentally redesigned our claims operating model with simpler processes in fewer sites, giving our people more control and our customers a better experience. By managing claims through our own professional loss adjusters and repairing cars through our own accident repair centres, we aim to give customers the benefit of our scale and strength.

We continue to invest in our capabilities to provide customers with a service that is reliable and straightforward, with improved transparency at each step of a claim.

2013 progress:

- Completed claims transformation in Motor and Home with ClaimCenter roll-out and new operating model, including the use of social networking techniques to combat fraud
- Making full use of our claims fulfilment network to offer improved customer propositions, for example car replacement service
- Laid the foundations for DLG Legal Services

Priorities for 2014:

- Continue to improve customers' experience by rolling out further claims initiatives, for example using smartphone technology
- Further enhance claims leakage and fraud identification
- Generate further efficiency

Notes:

1. See note 2 on page 2
2. See note 2 on page 17



Costs

We aim to improve efficiency throughout the business to reduce costs, enable faster decision making and improve customer propositions.

We recognise the requirement to keep costs down, whatever the market conditions. We are also in the process of updating our IT infrastructure which should improve efficiency, offer us more flexibility and enable us to enhance our customers' experience.

2013 progress:

- Achieved cost reduction target set at the time of IPO and taken further steps to improve efficiency throughout the organisation, particularly in head office
- Built new data centres in conjunction with Capgemini
- Started roll-out of new voice and desktop tools to improve efficiency throughout the organisation

Priorities for 2014:

- Make substantial progress on the migration of IT applications, reducing dependency on RBS Group systems
- Build a low-cost self-service digital infrastructure
- Reduce total cost base¹ to approximately £1,000 million



Commercial and International

We focus our Commercial business on targeting the growing SME and micro segments, and are well positioned to benefit as these customers move towards direct and e-trading distribution channels.

We have 10 years of experience in Italy and Germany, two of Europe's biggest motor insurance markets, and are now reaching scale.

As the characteristics of our personal and commercial lines businesses increasingly come together, we aim to leverage our skills across the Group particularly in the areas of technical pricing, claims management, telematics and flood mapping.

2013 progress:

- Full cycle eTrading platform launched for Commercial
- Implemented ClaimCenter in Italy and for Commercial Motor
- Delivered efficiencies through consolidation of underwriting centres and separating trading activities
- Improved profitability in Italy with a lower COR
- Significantly grew premiums in Germany

Priorities for 2014:

- Achieve target for COR of below 100% for Commercial division²
- Embed and extract value from ClaimCenter and eTrade roll-out
- Develop van proposition, including telematics and Churchill brand
- Drive further efficiencies in International
- Implement a new rating engine in Italy
- Maintain progress in Germany with over 9% growth in in-force policies in January 2014