‘Major shock to the market’ as insurer Direct Line scraps dividend following flood of claims

Direct Line has seen its shares fall by a quarter after it scrapped its final dividend, blaming a flood of claims related to bad weather in the UK last month.

The home and motor insurance firm said severe weather in December, which included a cold snap, had pushed it to an underwriting loss for 2022.

The insurer told investors it now expected total weather claims of around £140m for the year.

It had previously guided on a sum of £73m and, in July, already cut its profitability outlook and delayed the second leg of a share buyback.

Direct Line has been hit by a surge in claims.

Weather-related ones included for subsidence in the wake of the hot summer.

While motor insurers performed strongly during the COVID pandemic as few customers were driving, inflationary pressures and supply chain issues due to the pandemic and the war in Ukraine have pushed up the cost of repairs.

Direct Line also said its property investment portfolio had seen a 15% drop in values, equivalent to £45m.

“Things have gone from bad to worse,” analysts at Jefferies said in a note, adding they expected the axed final dividend to “come as a major shock to the market”.

They reiterated their hold rating on the stock.

Shares fell by more than 27% in early deals – hitting their lowest level since October 2013.

“The board recognises the importance of the dividend to our shareholders, and continues to take actions to restore balance sheet resilience and dividend capacity as a priority, consistent with our track record of delivering returns for shareholders,” chief executive Penny James said in a statement.

She added: “Despite the impact of these external factors, we continue to make good progress, including enhancing our technological capabilities, introducing new products and improving our efficiency.

“We have taken actions to respond swiftly to further inflation in motor claims and will continue to navigate market volatility as it arises.”