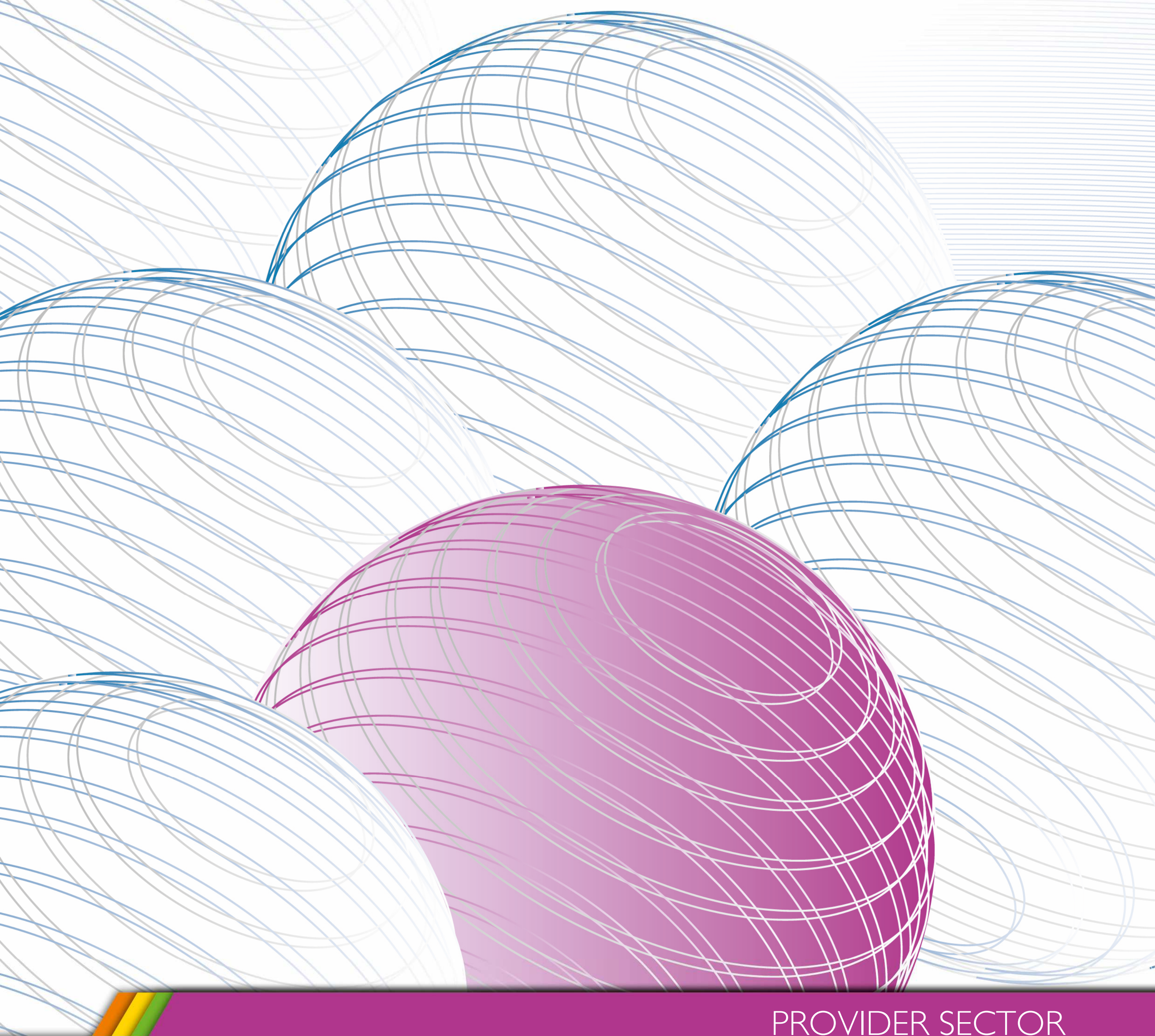
ISSUED 08 November 2023



PROVIDER SECTOR
LV=

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd
Accessible • Comparative • Independent

ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level (i.e. the elements and functions of an organisation which operate to specifically deliver and manage a proposition or service to the customer), specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

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CONTACT INFORMATION

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Rating & Assessment Commentary

RATINGS

Overall Financial Strength

AKG B
FINANCIAL STRENGTH RATED
PROVIDER SECTOR STRONG
LIVERPOOL VICTORIA FINANCIAL SERVICES LTD

AKG B
FINANCIAL STRENGTH RATED
PROVIDER SECTOR STRONG
LIVERPOOL VICTORIA LIFE COMPANY LTD

Additional Financial Strength and Supporting Ratings

	Non Profit Financial Strength	Unit Linked Financial Strength	With Profits Financial Strength	Service	Image & Strategy	Business Performance
Liverpool Victoria Financial Services Ltd	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★
Liverpool Victoria Life Company Ltd	★★★★	★★★	▣	★★★★★	★★★★	★★★★

SUMMARY

- Established in 1843, Liverpool Victoria Friendly Society Ltd had grown to become the UK's largest Friendly Society
- The sale of LV= General Insurance Group to Allianz Holdings plc was completed on 31 December 2019
- Core management roles were refreshed and the structure aligned to the shape of the remaining business
- Following member approval, Liverpool Victoria Friendly Society Ltd was converted from a Friendly Society to a company limited by guarantee registered under the Companies Act 2006, under the name Liverpool Victoria Financial Services Ltd (LVFS) on 2 January 2020
- December 2021 saw members vote against a proposed transaction whereby funds advised by Bain Capital Credit LP (Bain Capital) would pay £530m to acquire LVFS's Savings and Retirement and Protection business. The transaction did not proceed
- Having reviewed its options, in February 2022, LV= announced a strengthening of its belief in, and commitment to, continuing as an independent mutual brand and potential merger discussions with Royal London were terminated
- The business has been repositioned to focus on targeting customers where the LV= brand and products are considered most competitive
- Alan Cook stepped down from the Board as Chair in February 2022, with Simon Moore appointed on a full time basis in June 2022
- In September 2022, David Hynam replaced Mark Hartigan as CEO
- As at 31 December 2022, the Group had assets of £12.5bn and a regulatory capital coverage ratio of 174%
- In April 2023, LV= announced plans to appoint BlackRock as its new primary asset manager
- In April 2023, LV repurchased £150m of its subordinated debt, leaving £200m outstanding
- June 2023 saw the launch of the LV= Platform Service, a white-labelling arrangement with Embark, which enables access to the LV= Smoothed Managed Fund range using Embark's platform technology
- Stephen Percival was appointed Chief Financial Officer in May 2023

COMMENTARY

Financial Strength Ratings

At 31 December 2022, the Group capital surplus on a standard formula basis reduced to £391m [2021: £637m] with a lower regulatory SCR coverage ratio of 174% [2021: 187%], but within the Group's risk appetite of a ratio of 140% - 200%. The Group's capital position was affected in 2021 by the following:

- Trading Profit (increase in surplus capital of £89m)
- One-off impact from Model and Basis Changes (increase in surplus capital of £13m)
- Management Actions (reduction in surplus of £10m)
- Non-Operational expenses and TMTP run off (reduction in surplus of £110m)
- Economic impacts over 2022 (reduction in surplus capital of £2m after TMTP recalculation)
- Reduction in the surplus of the staff pension scheme (reduction in surplus capital of £71m)
- Capital Tiering Restriction (reduction in surplus capital of £120m)
- With Profit Surplus Distribution (reduction in surplus of £26m)

The SCR for the Group as at 31 December 2022 decreased to £566m [31 December 2021: £796m], driven by the disinvestments from asset share and the rise in interest rates.

As a mutual, access to capital is not as readily available as it is to some of its proprietary rivals. LV= has recognised this and looked at other options, such as the raising of £350m of subordinated debt in 2013. The acquisition of Teachers Assurance in 2016 brought with it an element of additional scale, and has helped with the strategic intention of growing the life part of the Group's business. The Group has also de-risked its balance sheet and strengthened its capital position through reinsurance arrangements. Of greater significance, was the sale of the general insurance business to Allianz, over two transactions carried out in 2017 and 2019. Whilst this disposal strengthened the capital position of LV=, the net sale proceeds have been earmarked to be distributed to with profits policyholders through terminal bonus enhancements (the newly introduced exit bonus) and the continuation of annual mutual bonus declarations.

With the transaction with Bain Capital not proceeding, LV= is now operating as an independent mutual brand, repositioned to focus on its mass affluent target market. A strategy that should remove the need for level of external investment previously sought. The initiative with Embark being a positive development in this respect.

Control of expenses, in particular overheads, will be important as the group operates as a focused life, pensions and investment business and costs will need to be reduced. The Group reported that targeted operating expenses remained stable at £105m [2021: £105m] despite the inflationary pressures during the year.

The appointment of a CEO with experience of and a commitment to Mutuality is a positive development and aligned to the revised strategy.

Liverpool Victoria Financial Services Ltd

LVFS's solvency coverage ratio increased a little in 2022 and remained healthy. Solvency and liquidity remained in excess of the board risk appetite.

LVFS's reserves were not materially impacted by the pandemic. An £8m reserve was set up in 2020 (reduced to £4m in 2021 and to zero in 2022) to cover the uncertain future impacts of COVID-19, including additional lapses.

Non profit business in the company has a good level of security, given its strategic importance and the level of with profits business alongside it. Similarly, the small amount of non profit business retained in LVLC enjoys the support of LVFS.

Unit linked business has been key to the overall proposition and AKG expects appropriate support and attention to be given. This line enjoys the comfort and support that the company and its level of free assets bring.

These two business lines will continue to look to with profits business/members for support.

In recent years, LV= has generally shown good with profits performance, and it maintains a reasonable equity backing ratio. It remains a relatively small fund when compared with the larger life companies. Although other business lines have dominated marketing activities, with profits business, which has remained significant for LV=, has gained greater prominence following the decision to convert all Smoothed Managed Fund investments to a with profits basis and to expand the range. LV= will need to write sufficient volumes of with profits business to enable it to maintain an estate from which it is able to investment appropriately in the business. The LV= Investment Platform should be beneficial here.

The transfer of the business of Teachers Provident Society Ltd to the Society and sale of goodwill, subsidiaries and non profit business improved the financial position of the Teachers Assurance Fund, although in part offset by the payment of £250 to each qualifying member for loss of membership rights and a similar rating for with profits business applies for this fund. 2021 saw the introduction of a £20m provision relating to Teachers mis-selling compensation, reduced to £18m in 2022.

The with profits rating shown does not apply to the smaller RNPFN fund, which is not as financially strong and has a rating of 3 stars out of a maximum of 5.

LVFS has granted a contingent loan facility to the RNPFN fund to be used in the event of a shortfall in the capital resources of that fund. The maximum level of capital support is reset every year in line with the terms of the RNPFN Scheme. The level which applies in 2022 is £43.3m [2021: £46.2m].

LVFS reported a Solo SCR coverage ratio of 163% [2021: 162%] as at 31 December 2022. This increased to 176% as at 30 June 2023, with Own Funds reducing by £50m, including the repayment of £150m of sub-debt offset by reducing the capital tiering restriction to zero [31 December 2022: £120m] and the SCR reducing by £70m, driven by a reduction in mass lapse persistency capital, partly offset by an increase in equity capital.

Liverpool Victoria Life Company Ltd
In recent times, LVLC has been a small declining company. Its solvency coverage is reasonable, with the minimum capital requirement biting, in the context of the run off of the small block of remaining UIA business acquired in 2005. The company also benefits from its presence within the Group.

Service Rating

LV= states that one of its core aims is to deliver a strong and reliable service proposition to clients and advisers. LV= remains highly regarded both by intermediaries and consumers.

The award winning service continues to attract and retain customers. Continued focus on customers and members has again led to numerous awards across the business. LV= won the Moneywise Customer Service Awards for the 'Most Trusted Life Insurance Provider' for the seventh year in a row in 2019. LV= was the third most recommended life insurer, as measured by YouGov brand index in 2020. In addition, LV= won the Moneyfacts award for Best Income Protection provider for the 13th year in a row in 2022.

LV= reported a much reduced customer net promoter score (NPS) of +39 [2021: +51] at the end of 2022, reflecting a challenging period of service in the summer months. It subsequently reported that turnaround activity since then had seen its monthly NPS increase and was +47 in June 2023.

LV= also reported that its Adviser NPS of +30 [2021: +30] ranked 3rd out of 17 providers in the protection and savings and retirement markets.

LV= continues to be highly regarded for its service, as recognised in the Financial Adviser Service Awards and other external awards and metrics.

LV= switched to remote solutions as a result of the pandemic and has prioritised existing business by identifying and 'protecting' key processes (including claims and payments). Processes have been adapted, including the use of virtual screenings, and the evidence required at application and claims stages.

LV= has also adopted 'a flexible and personal approach' to help its customers maintain their protection policies through this period. This included initiatives such as payment breaks for its most vulnerable customers and premium and cover reduction options for others.

Image & Strategy Rating

In February 2017, LV= launched a 'clear and simple blueprint' for the future of LV=. This established a common purpose of helping its customers, colleagues and communities to 'Live Confident'.

In brand terms LV= has seen significant growth in the last decade, establishing it from a relatively modest position, to be one of the UK's leading financial services brands, both from general recognition and positive perception perspectives. This is now a significant strength, enabling development of adjacent product offerings and distribution approaches. The company is proud of the strength and heritage of the LV= brand (which is now licensed by the separated Allianz owned General Insurance business, with the continued investment it puts behind it).

There have been changes at Board level, including the appointment of chair Simon Moore and chief executive David Hynam, who both have experience of and commitment to Mutuality, positive moves in light of the revised strategy.

The transition to Blackrock and a resultant new Smoothed Managed Fund series are key initiatives to growth the With Profits Fund along with the recently launched LV= Investment Platform.

With the Bain Capital transaction now in the past, LV='s new strategy, management changes and strong ongoing brand identity affords the business a positive trajectory.

Business Performance Rating

2022 was reported as a mixed year by LV=.

Operating capital generation for 2022 reduced to £91m [2021: £110m], mainly driven by the reduction in Smoothed Managed Funds and pension new business sales. Within this, trading businesses added £89m [2021: £87m], reflecting a continuing strong trading performance in its Protection business, where LV= reported both improved volumes and margins. However, this was offset by a decrease in the Savings and Retirement result. Estate investment income added an additional £3m [2021: £8m]. Operating capital generation was also impacted by adverse experience variances of £4m [2021: £6m], which were mainly offset by favourable model and basis changes and capital initiatives of £3m [2021: £21m].

Operating profit generation remained stable at £31m [2021: £31m], with Estate investment income adding a further £3m [2021: £8m] and experience variances and model and basis changes netting to £nil. Targeted operating expenses remained stable at £105m [2021: £105m] despite inflationary pressures during the year, with strong cost disciplines now embedded within the business. Total IFRS other operating and administrative expenses reduced by £10m to £273m [2021: £283m] with a decrease in the level of spend on non-operational items.

New business sales on a PVNBP basis decreased by 8% to £1,454m [2021: £1,589m]. Within this, Savings and Retirement business achieved new business sales of £1,097m [2021: £1,257m] made up of:

- Single premiums paid into the Smoothed Managed Fund range of £280m [2021: £437m]
- Single premium annuities of £264m [2021: £138m]
- Equity release mortgage advances of £242m [2021: £204m]
- Policyholders also added £311m [2021: £478m] to their pensions by way of deposits to their unit-linked pensions and SIPP funds.

Protection business achieved new business sales of £357m [2021: £332m] on a PVNBP basis, made up of new business regular premiums of £42m [2021: £39m].

The return on the main with profits fund was -14.3% in 2022 [2021: 6.8%], as a result of both equity and bond values being negatively impacted by rising interest rates.

Group & Parental Context

BACKGROUND

Established in 1843, Liverpool Victoria Friendly Society Ltd had grown to become the UK's largest Friendly Society.

It had widened its operations substantially via new activities and acquisition. Acquiring Frizzells in 1996 and Landmark in 1997 broadened its scope to include general insurance, banking and the provision of independent financial advice. In February 2001, the Group acquired Permanent Insurance Company Ltd from Equitable, renamed it Liverpool Victoria Life Company Ltd (LVLC) and in December 2001 used this structure to acquire the Royal National Pension Fund for Nurses (RNPFN). In 2002, Bishopscourt, an IFA Group specialising in affinity services, was acquired. In November 2005, LVLC acquired a small portfolio of business from UIA Insurance (UK) Ltd. January 2007 saw the Group acquire Britannia Road Rescue Services and in December 2007 the Group acquired the new business operations of Tomorrow (previously GE Life) from Swiss Re and entered the unit linked pensions market. In October 2008, LV= acquired the Highway Insurance Group, an organisation complementary to its existing general insurance operations. The Group transferred much of the life business of LVLC to Liverpool Victoria Friendly Society Ltd in two tranches, December 2008 and December 2011.

2007 saw the Group carry out a major rebranding exercise, introducing the brand LV= and reconfirming its commitment to mutuality. In May 2013, £350m of subordinated debt was issued, enabling it to improve capital efficiency and support growth ambitions.

LV= acquired a majority stake in Wealth Wizards Ltd in August 2015 and the Group acquired most of the business of Teachers Assurance in June 2016.

At the same time, the Group has tightened its focus on core businesses. The loss-making Whole of Market advice business was disposed of in 2007. The Banking operation was also disposed of, concluding in 2010. In 2011, the asset management arm, Liverpool Victoria Asset Management Ltd (LVAM), was sold to Threadneedle Investments (now Columbia Threadneedle Investments) to whom it outsourced its asset management, at the time enabling LV= to focus on general insurance, protection and savings and retirement.

2019 saw the Group exit from the General Insurance (GI) market. Motor, Home and Travel Insurance was transacted through Liverpool Victoria Insurance Company Ltd (LVIC), a subsidiary of Liverpool Victoria General Insurance Group Ltd. General Insurance has also been written through 3 other subsidiaries, LV Protection Ltd, Teachers Assurance Company Ltd, and LVIC's subsidiary, Highway Insurance Company Ltd. A transaction was entered into with Allianz Holdings plc that resulted in Allianz owning the entire stake in LV='s GI business. In December 2017, Allianz Holdings plc paid LV Capital plc (LVCAP - at the time LV='s GI holding company) an initial £499.8m in exchange for a 49% stake in Liverpool Victoria General Insurance Group Ltd and its subsidiaries (LV='s GI business) in a deal that valued this business at £1.02bn. LV= also acquired Allianz's personal home and motor insurer's renewal rights, while Allianz obtained LV='s commercial insurer's renewal rights. On 31 December 2019, Allianz paid £619m for the remaining 51% equity stake, in the second stage of the transaction, giving an increased total value of £1,119m. A brand license agreement ensures that the business under Allianz can continue to trade as LV= General Insurance. LV Protection Ltd and Teachers Assurance Company Ltd remain in the Group, but are closed to new business.

On 2 January 2020, Liverpool Victoria Friendly Society Ltd converted from a Friendly Society to a Company limited by guarantee, and was renamed as Liverpool Victoria Financial Services Ltd (LVFS).

In March 2021, the 70% stake in Wealth Wizards was sold to Royal London.

On 10 December 2021 the transaction, announced in December 2020, whereby Bain Capital would pay £530m to acquire the LVFS Group's Savings and Retirement and Protection business, did not receive sufficient member support and did not go ahead.

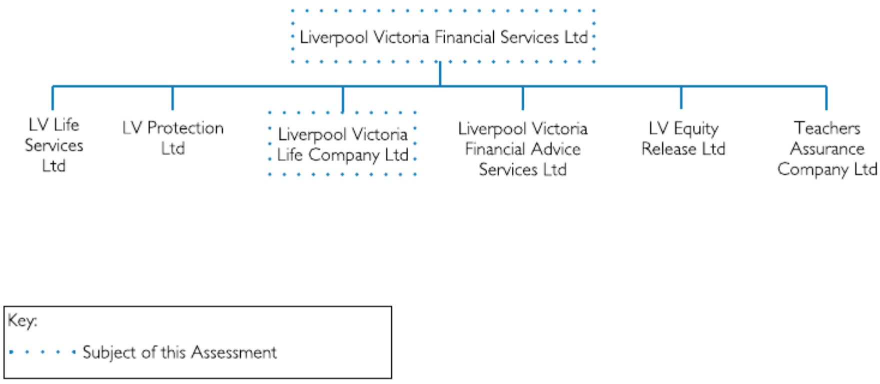
LV= received an unsolicited preliminary merger proposal from Royal London on 8 December 2021. However, merger discussions with Royal London ceased in February 2022 and LV= announced its belief in, and commitment to, the continuation of its status as an independent mutual.

In February 2022 Alan Cook stepped down as Chair, replaced by Seamus Creedon on an interim basis, with Simon Moore appointed on a full time basis in June 2022. In September 2022, David Hynam replaced Mark Hartigan as CEO. Stephen Percival was appointed Chief Financial Officer in May 2023.

As at 31 December 2022, LV= had assets of £12.5bn and a regulatory capital coverage ratio of 174%. The Group now employs around 1,300 people and has over 1.16m members and customers.

All life and pensions new business is currently written directly into LVFS. Equity release is written by LV Equity Release Ltd.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Liverpool Victoria Financial Services Ltd

BASIC INFORMATION

Company Type
Life Insurer

Ownership & Control
Mutual

Year Established
1843

Country of Registration
UK

Head Office
County Gates, Bournemouth, BH1 2NF

Contact
www.lv.com/life-contact-us

Key Personnel

Role	Name
Chair	S A Moore
Group Chief Executive	D E Hynam
Chief Risk Officer	J-M Robert
Chief Finance Officer	S K Percival
Chief Operating Officer	M R Hanscomb
Interim Managing Director of Protection, Savings & Retirement	K Carnegie
Chief Brand & Communications Officer	S Preece
Chief People Officer	E Woodford
Company Secretary	M Jones
Chief Internal Auditor	D Davies
Chief Actuary	P M Downey
With Profits Actuary	T J Fannin (Watson Wyatt)

Company Background
Established in 1843, the company was the UK's largest friendly society, prior to its conversion on 2 January 2020 from a Friendly Society to a company limited by guarantee, which resulted in it being renamed as Liverpool Victoria Financial Services Ltd (LVFS).

Operating for many years as a traditional home service insurance company, writing both Ordinary and Industrial Branch business, it had re-positioned itself with a much broader range of activities, via a number of different subsidiaries. Some of these have since been exited as part of a more tightened focus. It stopped writing industrial business in 1999 and entered the IFA market in 2000. The acquisition of the new business operations of Tomorrow, late in 2007, and the transfers-in of the business from LVLC in 2008 and 2011 changed its profile, having previously almost exclusively written with profits business. The business of Teachers Provident Society Ltd was transferred into the Society, as part of the Heritage business, in June 2016, amounting to assets of around £750m.

LVFS's structure is as follows:

- The main fund (the LVFS Fund), which holds LVFS's business that sits outside the RNPFN Fund and the Teachers Assurance Fund
- The RNPFN Fund, a ring-fenced sub-fund within LVFS, which holds the remaining business transferred from the Royal National Pension Fund for Nurses on 31 December 2001
- The Teachers Assurance Fund, a ring-fenced sub-fund within LVFS, which holds the remaining with profits business transferred from Teachers Provident Society Ltd on 1 June 2016

OPERATIONS

Governance System and Structure

The Group's Board is committed to high standards of corporate governance and stewardship and has adopted a governance structure based on the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code (the 'Code'). LVFS has complied with the Code, and from 2019 all directors will stand for reappointment annually. The Board believes that its practices are consistent with the principles of the Code and are appropriate and suitable for it and its members. There were no significant changes in the Group's system of governance in 2022.

Within its Systems of Governance, the LVFS Board has adopted a 'Three Lines of Defence' model with key oversight functions being Risk, Compliance, Actuarial and Internal Audit. In setting up these functions, the Board states that it has ensured that:

> *They are free from influences that may compromise their ability to undertake duties in an objective, fair and independent manner*
>
> *Each function operates under the ultimate responsibility of, and reporting to the Board*
>
> *They have the necessary authority, resources and expertise, as well as unrestricted access to all relevant information necessary to carry out their responsibilities.*

The scope, authority and responsibility for each of the Three Lines of Defence is set out in a Board-approved Risk Mandate, which is included as part of the Risk Strategy. The Mandate, in conjunction with the Risk Operating Model, confirms how each function achieves independence and how potential conflicts of interest are managed.

The conversion to LVFS enables the company to operate under the Companies Act 2006 which is a more modern and regularly reviewed piece of legislation than the FS Act 1992, and provides greater clarity in respect of the operational and governance framework required, for example, the Companies Act 2006 codifies directors' duties. However, LVFS is bound by the same PRA and FCA rules and guidance regarding systems of governance, risk management, and standards of customer conduct as it was prior to the conversion. Following conversion, the LVFS Board retained the same members, the same structure and materially the same terms of reference as previously.

In 2021, LV= established a Sustainability Working Group to align business strategy to sustainable objectives. Actions included enhancing investment strategies to invest into specific UK and Global ESG funds. During 2022, LV= appointed a dedicated sustainability manager to support the development and embedding of a sustainability strategy.

LV= re-joined the Association of Financial Mutuals (AFM) in early 2023 and the Board now intends to report against the principles of the AFM's Corporate Governance Code.

In 2023, the LV= Member Panel was replaced by the online LV= Member Community, a space for members to get involved in LV= and provide their thoughts, opinions and feedback on a range of surveys and topics.

Risk Management

The Board is responsible for determining the appropriate level of risk to which the Group may be exposed and ensuring that these risks are appropriately controlled. These include the risks to the business model and future performance, those which threaten policyholder security and/or liquidity and those which could have a detrimental impact upon member outcomes.

The Board seeks to achieve this by ensuring that the risk management framework (LV=RM) continues to include the setting of a proportionate risk strategy, risk appetite and clear risk mandate and organisational design. The Risk Committee, on behalf of the Board, regularly monitors the operational effectiveness of the LV=RM to ensure that it continues to drive a suitably robust risk culture within LV=. The Risk Committee met four times in 2022 [2021: six].

The risk strategy is aligned with the LV= business strategy and aims to ensure that an effective approach to risk management is in place, in line with its business and financial goals.

In May 2020, the LVFS defined benefit pension scheme converted an existing longevity swap covering the majority of the scheme's pensioners to a c. £800m buy-in with Phoenix Life. The initial longevity insurance agreement was entered into in 2012 with ReAssure and reinsured by SwissRe. The buy-in transfers longevity and asset /ALM risks to Phoenix, whereas the swap had only transferred longevity risk. The transaction reduces the risk of increased future contributions from LVFS into the scheme.

Administration

LV= has invested significantly in the development of digital propositions since 2015 to improve core operating systems within the General Insurance and Protection businesses as well as a later focus within Savings & Retirement.

As a key component of this work, LV= now uses quote and apply technology, Fastway, for financial advisers, offering a faster way for advisers to protect clients. To support its goal of providing good quality propositions at a fair price, LV= continued to develop Fastway, which combines the 'benefits of technology with the expertise of its people, providing a faster and more intuitive application journey and enables more clients to be covered quicker'. This technology can be used for LV='s 'personal' Life Insurance, Life with Critical illness, Income Protection and Personal Sick Pay (PSP) product lines. 2020 saw the Family Income Benefit being added to the suite and improved functionality, including an Adviser Dashboard.

Other investments in technology saw the launch of LV= Doctor Services in 2017 which gives simple, fast and convenient access to a UK general practitioner or medical specialist. The LV= adviser centre is continually being developed and provides a range of tools, calculators and support in order to achieve the goal of being easy to do business with. Customer centric improvements including further digitisation of online forms and enhanced use of the Origo options partnership have been made. A new Equity Release system was delivered and commissioned into service in July 2020, the first fully digitally enabled system in LV=.

A pre-underwriting tool is available online, 24/7, which enables advisers to submit business outside of regular working hours and receive instant decisions without having to call an underwriter. The tool can provide an indication of the final underwriting outcome, and can also be used for multiple conditions and confirming any necessary medical evidence.

LV= operates with a large case team, to support the management of protection servicing for adviser's high value clients, and has a Business Protection Specialist team, to help advisers with underwriting and application processes. Customer experience operates case ownership for high profile or sensitive cases. Equity Release hubs have been created to increase the level of strategic support for firms.

LV= has back office systems providers and quotation portals. It has back office systems links in place with suppliers including IRESS Adviser Office, Best Practice, Intelliflo, Plum Software and True Potential, and portal links in place with suppliers including iPipeline, Lifequote, Webline, Hub Financial Solutions and Annuity Exchange.

Ongoing administration development makes use of a 'Systems Thinking' approach.

LV= reported good progress on its IT transformation in 2021 including full delivery of the new Equity Release system and established an IT investment plan that provides more certainty on the future investment needs of the business and enables management of its capital.

The Protection Progress Hub provides self-serve capability so that financial advisers can quickly and easily track new business applications reported 157,000 unique visits to take actions.

In response to customer and adviser feedback, to create faster and easier service access to the Smoothed Managed Fund range, LV= has embarked on a programme of digital re-engineering. The first phase commenced in 2021 to increase automation of the key transactional processes such as new business set-up and accessing tax free cash. The second phase, commenced in early 2022, delivers significant enhancements to both customer and adviser digital portals, providing improved user journeys through richer information and more on-line self-serve options. The third phase, launched in May 2023, provides advisers with an additional option for accessing the Smoothed Managed Fund range in a fund-supermarket trading platform environment.

In 2020, as a result of COVID-19 restrictions, the business transitioned working practices so that a majority of staff could work from home during the pandemic without detriment to the service provided to customers and while ensuring the business continued to operate within risk appetite. Although a significant proportion of staff returned to the office during 2021, the business has retained the capability to transition the majority of staff to home working as was required in December 2021 following updated government guidance.

Benchmarks

All parts of the business are very proud of the strength and heritage of the LV= brand and LV= was awarded a Brand Reputation score of 74.4 by the Reputation Institute in 2019. Being trusted and recommended by customers, members and intermediaries underpins LV's ambition to be Britain's Best Loved Insurer, and the company was named as 'Most Trusted Life Insurance provider' at the Moneywise Customer Service Awards for the seventh consecutive year in 2019. In 2022, LV= was named 'Best Income Protection Provider' at the Investment Life & Pensions Moneyfacts Awards for the 13th year in a row. At the Financial Adviser Service Awards in November 2022, LV= was again awarded five star ratings in both the Investments and the Pensions and Protection categories.

LV= reports a customer net promoter score (NPS) of 39 [2021: 51] in 2022 and a top three NPS ranking form advisers for both Protection (3rd) and Savings and Retirement (3rd) [2021: 3rd and 3rd, respectively]. The customer NPS score has since increased to 47, the end of 2022 score being attributed to a challenging period of service in the summer months, with turnaround activity since then leading to the increase.

Employee engagement scores for 2021 were impacted by the Bain Capital transaction and the average engagement score fell by 17 percentage points to 59% [2020: 76%], but had recovered to 74% at end 2022.

Outsourcing

In response to the PRA's 'Supervisory Statement SS2/21 Outsourcing and third party risk management', the LV= Board, through its Risk Committee, developed the Third Party Management Policy. The overarching aim of this policy is to ensure that LV= applies adequate governance and controls to all third party dependencies, including those that might impact on our customer and member outcomes and the Operational Resilience of LV=.

LV= has material suppliers who provide outsourced support for asset management, IT infrastructure, maintenance and system hosting.

These suppliers provide several benefits to LV=, including cost efficiency and access to improved technology within the business's administrative capability. Wherever processing or specialist work is undertaken by these partners, LV= remains fully responsible for the oversight, management and performance of the outsourced activity.

The nature of the services provided, and the jurisdictions they operate in, are:

- Investment of Assets, Investments in commercial mortgages - UK
- Data Management & Operations, Application Support, Datacentre Management, Infrastructure, PCA - Oracle Private Cloud, Middleware and Database Management, LAN Management, Exchange Support - UK and India

In April 2023, LV= announced plans to appoint BlackRock as its new primary asset manager.

The funds that will move to BlackRock are currently managed by Columbia Threadneedle Investments. The transition will be phased over a 12 month period by the LV= Investment Oversight Group in conjunction with specialist external investment consultants.

LV= remains responsible for all strategic asset allocations and investment decisions.

STRATEGY

Market Positioning

LV= entered 2020 as a company limited by guarantee and as a newly standalone life, pensions and investments business under the leadership of a new CEO, Mark Hartigan. His appointment led to the refinement of LV's strategy and the establishment of three lines of business - Savings and Retirement, Protection and Heritage. Within this, plans included the development of savings, retirement and protection products, as well as reducing the cost base to ensure that the business has the right level of costs to reflect its new structure.

The business stated that it exists to 'provide affordable, accessible protection insurance for people during their working lives and to enable them to retire with confidence. The new structure along our three business lines, which we introduced at the start of 2020, provides a solid platform from which to build a sustainable business for the long term'.

Alongside this early in 2020, the Board began a strategic review of the business. The sale of the general insurance business at the end of 2019 had strengthened the capital position of LV=, with the resultant sale proceeds enabling a surplus to be returned to with-profits members through ongoing bonuses. Eligible members received £45m of exit bonus in 2020 (and a further £10m and £12m in 2021 and 2022 respectively). A key milestone in this strategic review was the announcement of the transaction with Bain Capital, which didn't receive sufficient member support.

The LV= Board subsequently reviewed its options and stated that it believes in the continuation of LV='s brand and mutuality and the opportunities this presents for its members, customers, employees and wider communities has strengthened. This involves focussing on areas where it considers itself to be most competitive.

LV= states that it has listened to the importance members place on the stability and security of their policies and that many placed the value of mutuality above the financial benefits of the previously proposed transaction.

In early 2022, the Board made a re-assessment of its business plan and took into account LV='s improving commercial performance over the last 18 months, recognising that during this period it had:

- Strengthened its leadership team with a new chief financial officer, chief operating officer and chief risk officer
- Repositioned its business to focus on targeting customers where the LV= brand and products are most competitive
- Improved its products with enhancements to its smoothed investment range, income protection and critical illness products
- Seen improvements during 2021, and in the anticipated outlook, in the volume and profitability of its new business, particularly in relation to its Smoothed Managed Fund products
- Put plans in place to convert all Smoothed Managed Fund investments to a with profits basis in order to underpin a with-profits fund which is able to support the future levels of investment required in its updated business plan, while aiming to ensure that the reasonable expectations around returns to members are still met
- Continued to manage its expenses and cost base, with an anticipated reduction in the level of spend on non-operational items over the medium term
- Made progress on its IT transformation including full delivery of a new Equity Release system
- Established an IT investment plan that provides more certainty on the future investment needs of the business and enables careful capital management

A financial plan, covering the next five years, was reviewed by the Board and it was concluded that 'the strength of LV='s business performance combined with its operational progress and strong capital position' supported the view that LV= was now in a place where it could move forward and compete successfully in the market as a 'vibrant, sustainable, mutual brand'.

The Board therefore announced its decision to continue with LV='s current status as a mutual on 11 February 2022, stating its determination to build a 'successful future for today's members and the generations to come'.

In July 2022, LV= announced that Mark Hartigan had confirmed his intention to step down as interim chief executive and a member of the LV= Board. His replacement, David Hynam, has experience of and commitment to Mutuality, which should be seen as positive in relation to the revised strategy.

Proposition

LV= is a protection, savings and retirement provider, which aims to help its members protect their income while they are working and maximise it when they stop, believing everyone should have access to independent, regulated financial advice.

There are three lines of business:

- Savings and retirement: pensions, savings, investments and equity release products and provision of financial advice
- Protection: life insurance and income protection products
- Heritage: savings and investment products that are no longer actively marketed, the majority of these are with-profits products

The business is driven by its purpose and consequently the needs of the mass affluent customers base, which it seeks to serve. This is sought in the approach to dealing with customers and their advisers (administration etc) but also in the very mix and design of its propositions.

The business model is underpinned by a focus on delivering great customer service and experiences; improving its digital capability and managing its cost base effectively.

Following the strategic review, LV='s business model is now built around the Smoothed Managed Fund, complemented by Protection, Equity Release and Advice through advisers, focusing on markets were mid-sized organisations have a track record of competing effectively.

Following the decision to convert the Smoothed Managed Fund business to With Profits, there will be an increasing focus on the With Profits fund as an investment fund available on investment platforms (including LV='s own platform).

In May 2022, LV= increased its Smoothed Managed Funds range to five with the launch of the Extra Cautious and Impact Growth funds, which now sit alongside the existing Cautious, Balanced and Growth funds.

This will be enhanced by complementary businesses owned by the WP Fund which provide Smoothed Managed Fund distribution, new business profit, liquidity and contribution to overheads.

2019 saw the repositioning of its flexible guaranteed products to create a suite of smoothed managed funds designed to cope with market fluctuations. The LV= Smoothed Managed Fund (SMF - also referred to as Flexible Guarantee products) range provides a key low volatility long term option, with optional guarantees for the retirement and saving proposition. It is accessible through pension, ISA (launched in 2019) and bond offerings. SMFs are a significant driver of profit, and seen as a growth area. The SMF range was relaunched in the first half of 2020, with greater emphasis on fund governance and mutual bonus. There was an increase in funds invested in 2020 after the simplification of the Pension wrapper. The SMF was also made available via a Trustee Investment Plan to increase distribution, to other platforms, which was launched in the second half of 2020. Continued development of the SMF franchise led to a doubling of single premiums to £437m in 2021, reducing to £280m in 2022, impacted by the ongoing economic conditions.

The transition to Blackrock and a new SMF series are key initiatives to grow the With Profits Fund along with the recently launched LVIP platform.

For Protection business, the focus is on improving service efficiency through an IT upgrade, increasing underwriting value and shifting the mix to higher value policies.

LVFS also has an Advice & Direct channel for investments, Equity Release and Protection leveraging its brand.

The core products offered in Savings & Retirement are Fixed-Term Annuities, Self-Invested Personal Pensions (SIPPs), Equity Release Mortgages, Flexible Guarantee Bonds (including its smoothed managed funds) and ISAs. The core products offered in Protection are Life, Critical Illness and Income Protection Insurance. The proposition is targeted at the mass affluent segment, typically a low risk, adviser led customer base.

Heritage products include legacy with profits business (both Ordinary Branch and Industrial Branch), the ring-fenced RNPFN Fund, containing the business acquired from the Royal National Pension Fund for Nurses in 2001, and the ring-fenced TA Fund, containing the with profits business acquired from Teachers Provident Society Ltd in 2016. The Heritage products are no longer actively marketed, although LV= continues to sell newer with profits products via the Life business channels.

LV='s flagship Self-Invested Personal Pension, the Flexible Transitions Account, can serve as a Personal Pension or Drawdown Pension solution for customers. It offers a wide range of investment options, including LV= core funds, including the Flexible Guarantee Fund and the Protected Retirement Plan. Investment can be made into Selected Partner Funds via nominated DFMs (Brewin Dolphin, Brooks MacDonald, Cazenove Capital, Charles Stanley, Investec, LGT Vestra, Quilter Cheviot and Rathbones). The Flexible Transitions Account also offers access to the Aegon Platform, Fidelity's FundsNetwork and a Self Investment option.

LV=’s Protected Retirement Plan is a fixed term annuity, which aims to provide a secure income over a set term, with a guaranteed value at maturity. Annuities have become more of a focus, and the first half of 2020 saw the re-launch of short term fixed term annuities, with 3 & 4 year Fixed Term Annuities. LV= is looking at leveraging distribution through the Retirement Advice Service panel.

The LV= Retirement Account enables advisers to recommend and blend a combination of LV= product solutions through one overarching account.

In February 2020 the Embark Group and LV= announced that they were at advanced stages in the development of launching a new LV= branded service that enables advisers to trade the LV= Smoothed Managed Fund range on Embark’s platform technology. Launched in May 2023, this service option from LV= is accessible through an upgraded adviser portal, integrated into one service alongside LV=’s SIPP. It also supports direct access for customers through LV=’s new digital ‘My LV=’ portal.

LV= offers a comprehensive range of Personal and Business Protection lines. The Personal Protection range includes Income Protection, Life Insurance, Life and Critical Illness, Personal Sick Pay, and Family Income Assurance, all of which are available as part of the Flexible Protection Plan (a menu plan). LV also offer a standalone Gift Inter Vivos product. The Business Protection range includes Key Person Cover, Share & Partnership Protection and Relevant Life Cover. 2020 saw LV= enhance its Life and Critical Illness cover for children. It also refreshed its Family Income Benefit and extended its LV= Doctor Services package.

LV= offers Lifetime Mortgage Lump Sum+ product lines in the equity release market. On 30 June 2020, LV= withdrew the Flexible Lifetime Mortgage product for new business, but launched a new Lifetime Mortgage Drawdown+ product later in 2020, doubling the accessible market for LV=. LV= is a member of the Equity Release Council (the Council) and, in adherence with the Council's standards, therefore offers additional features and safeguards to LV=’s lifetime mortgage products. This includes offering a 'No Negative Equity Guarantee' and a guarantee that the customer is safe to stay in their home for as long as they wish, provided all terms and conditions of the mortgage are met.

In November 2023, LV= extended its range of later life mortgages, launching two new products with Scottish Widows as its funding partner.

Rating & Assessment Commentary
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KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2022

Assets

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Fixed interest	4,533	4,082	3,574
Equities	480	433	218
Collectives	3,440	3,628	2,989
Property	0	0	0
Linked	3,813	4,362	3,419
Derivatives	131	83	13
Loans and mortgages	860	929	794
Reinsurance recoverables	1,208	1,179	732
Cash	108	98	81
Other	1,157	1,052	635
Total Assets	15,730	15,847	12,455

Liabilities

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	(16)	(40)	(148)
Technical provisions - life	9,898	9,454	7,586
Technical provisions - linked	3,742	4,262	3,368
Other	972	1,040	898
Total Liabilities	14,596	14,716	11,703
Excess of assets over liabilities	1,134	1,131	752

LVFS's assets and liabilities reduced by 21% and 20% respectively to £12.5bn and £11.7bn, respectively, in 2022 [2021: £15.8bn and £14.7bn]. The excess of assets over liabilities reduced to £0.8bn [2021: £1.1bn].

Life & Health SLT Technical Provisions

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Insurance with profit participation	6,176	6,103	4,987
Linked insurance	3,742	4,262	3,368
Other life insurance	3,722	3,351	2,599
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	(16)	(40)	(148)
Health reinsurance	0	0	0
Life reinsurance	0	0	0
Total life & health SLT technical provisions	13,624	13,677	10,805

Life Expenses

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	30	34	32
Insurance with profit participation	40	40	43
Linked insurance	33	32	40
Other life insurance	96	105	114
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
Other expenses	27	58	22
Total life expenses	226	270	251

Technical provisions were split 46% with profits, 31% linked and 24% other life insurance as at 31 December 2022 [2021: 45%, 31%, 25%]. Whilst a large proportion of with profits business is heritage and in run-off, the overall proportion of business that is with profits is expected to increase now that new business is written on a with profits basis.

Solvency Capital Requirement (SCR)

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Market risk	1,181	1,310	665
Counterparty default risk	43	32	23
Life underwriting risk	388	317	333
Health underwriting risk	95	102	92
Non-life underwriting risk	0	0	0
Diversification	(331)	(296)	(258)
Intangible asset risk	0	0	0
Operational risk	40	37	31
Capital add-ons already set	0	0	0
Other items	(567)	(662)	(332)
Solvency capital requirement	897	840	598

Eligible Own Funds

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Tier 1 unrestricted	1,116	1,085	674
Tier 1 restricted	0	0	0
Tier 2	361	348	299
Tier 3	0	0	0
Eligible own funds to meet SCR	1,477	1,433	973
Excess of own funds over SCR	580	549	375
SCR coverage ratio (%)	164.6	162.1	162.8

LVFS operates a Standard Formula basis for calculating its regulatory capital position.

LVFS's largest risk exposures on a diversified basis relate to market risk (38%) and underwriting risk (55%) [2021: 68% and 27% respectively]. Market risk is primarily Equity (35%) and Spread (60%) [2021: 53% and 41% respectively]; whilst underwriting risk is further broken down as: Lapses (66%), Expenses (16%), Health (14%), Longevity (3%) and Other (1%) [2021: 52%, 23%, 18%, 6%, 1%, respectively].

Market risk fell significantly due to the disinvestment of funds backing future bonus payments from asset share, dividend payments from LV Capital to LVFS and the rise in yield curve. Underwriting risk increased driven by a rise in lapse risk and became the main source of risk.

At 31 December 2022 the LVFS Solo capital surplus reduced to £375m [2021: £549m], with a SCR of £598m [2021: £840m] and a SCR coverage ratio of 163% (167% excluding the impact of the ring-fenced funds) [2021: 162% and 167% respectively]. The closed ring-fenced funds did not require capital support at the valuation date.

LVFS's capital position was impacted as follows:

- Trading Profit (increase in surplus capital of £89m)
- One-off impact from Model and Basis Changes (increase in surplus capital of £12m)
- Management Actions (reduction in surplus of £13m)
- Non-Operational expenses and TMTP run off (reduction in surplus of £109m)
- Economic impacts over 2022 (increase in surplus capital of £2m after TMTP recalculation)
- Reduction in the surplus of the staff pension scheme (reduction in surplus capital of £72m)
- Capital Tiering Restriction (reduction in surplus capital of £104m)
- With Profit Surplus Distribution (reduction in surplus of £20m)
- Transfers from LVCAP to LVFS over the year (increase in surplus capital of £51m)

Gross Life Premiums Written By Line of Business

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	64	66	71
Insurance with profit participation	201	274	133
Linked insurance	452	595	410
Other life insurance	331	319	443
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
Total gross life premiums written	1,048	1,254	1,058

Gross Life Premiums Written By Country

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Home country	1,048	1,254	1,058
Country 1	0	0	0
Country 2	0	0	0
Country 3	0	0	0
Country 4	0	0	0
Country 5	0	0	0
Other countries	0	0	0
Total gross life premiums written	1,048	1,254	1,058

Gross written premiums decreased by 16% in 2022 [2021: 20% increase] as overall new business sales decreased.

Sales of Smoothed Managed Funds and other pension products were constrained, against the backdrop of the ongoing economic background. The decrease in Smoothed Managed Funds sales was partially offset by increased sales of annuities and protection policies.

Premiums were made up as follows: unit and index linked (39%), other life insurance (41%), with profits (13%) and health (7%) [2021: 48%, 25%, 22% and 5%].

All business is written in the UK.

Profit

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Profit (loss) before taxation	(44)	(104)	(300)
Taxation	(41)	(11)	97
Profit (loss) after taxation	(85)	(115)	(203)
Other comprehensive income	(54)	23	(127)
Dividends	0	0	0
Retained profit (loss)	(139)	(92)	(330)

Life Business Flows

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Net life premiums earned	775	970	756
Net life claims incurred	(1,154)	(1,090)	(1,306)
Net flow of business	(380)	(120)	(550)

LVFS reported an increased IFRS Group loss before tax and mutual/exit bonus of £265m [2021: £66m] in 2022, with operating profit of £31m [2021: £31m] offset by: £80m [2021: £90m] of non-operational items, which consisted of £65m of non-operational expenses plus £23m of debt interest, offset by £8m of non-operational income and other adjusting items; £83m of tax credits allocated to policyholder asset shares and a £133m loss due to short-term investment fluctuations.

A mutual bonus of £23m was paid in respect of 2022 [2021: £28m], bringing the total since its introduction in 2011 to £292m. Additionally an exit bonus was introduced in 2020, whereby some of the proceeds arising from the sale of the general insurance business is distributed, with £12m [2021: £10m] paid to eligible members in 2022.

This led to an increased loss before tax of £300m [2021: £104m]. 2022 saw a tax credit of £97m [2021: tax payable of £11m].

With negative other comprehensive income of £127m [2021: £23m positive] this led to an overall increased transfer from the unallocated divisible surplus of £330m [2021: £92m].

Total operating costs increased to £215m [2021: £202m], with commission paid on acquisition of business, predominantly in the Protection business, rising to £83m [2021: £76m] as new business volumes for Protection business increased. Investment fees also increased during the year to £27m [2021: £21m].

With net premiums reducing from £970m to £756m and net claims increasing from £1,090m to £1,306m, there was an increased net outflow of £550m [2021: £120m].

Company Analysis: Liverpool Victoria Life Company Ltd

BASIC INFORMATION

Company Type
Life Insurer

Ownership & Control
Liverpool Victoria Financial Services Ltd

Year Established
1958

Country of Registration
UK

Head Office
County Gates, Bournemouth, BH1 2NF

Contact
www.lv.com/life-contact-us

Key Personnel

Role	Name
See Liverpool Victoria Friendly Society Ltd	

Company Background

Established as Medical Sickness & Life Assurance Society Ltd to operate in the intermediary market, the company was renamed Permanent Insurance Company Ltd in 1982 when it acquired the business of the Contingency Insurance Company Ltd and Minster Insurance Company Ltd. Equitable Life bought a controlling interest in 1995 (100% ownership in 1997), selling the company to LVFS in February 2001, when it was renamed LVLC. Until the business transfer in 2008, LVLC was the protection specialist within the Liverpool Victoria Group, operating from its own offices in Exeter.

In December 2001, LVLC acquired the business of the Royal National Pension Fund for Nurses (RNPFN). It also accepted reinsurance of around £300m of with profits bonds from LVFS and exited the Group PHI market, reinsuring this business, other than claims in payment, to Unum. In November 2005, the company acquired a small portfolio of business from UIA Insurance (UK) Ltd (UIA), as a result of the Group's relationship with Unison, a key affinity partner.

The majority of the business of LVLC, including the ring fenced RNPFN fund, as well as various reinsurance contracts in respect of the transferred business, were transferred into LVFS in December 2008. At that time, LVFS ceded to LVLC all the PHI liabilities (not otherwise reinsured) at that date on its Income Protection (IP) and Critical Illness (CI) policies. In December 2011, LVFS recaptured the reinsurance held by LVLC for the CI and IP products and the remaining business was transferred to LVFS, excluding the UIA business, which remains in LVLC.

In November 2009 the company sold all of its subsidiaries to LVFS to simplify the Group's legal structure and corporate governance. LVLC's substantial reduction in size led to a capital reduction in December 2010 of £530m, together with settlement of £82m of subordinated loan debt and a transfer of investments and cash totalling £164m. In November 2012, the company further reduced its share capital by £9.9m, £5m of which was paid as a dividend.

LVLC is currently closed to all new business and all reinsurance treaties with LVFS have been cancelled. Its main purpose is to manage the run-off of the UIA business; 765 policies in force at 31 December 2022 [2021: 805].

The Bain Capital transaction would have seen LVLC become the Group's main long-term insurance entity. LVLC now continues to manage the run-off of the UIA business and to act as reinsurer of protection contracts.

OPERATIONS

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STRATEGY

Market Positioning
Currently, LVLC's main purpose continues to be the management of the run-off of the UIA business acquired in 2005 which accounts for 99% of its insurance business in terms of liabilities. LVLC is also the reinsurer of Protection contracts consisting of term assurances and critical illness policies.

The Bain Capital transaction would have seen all of the Group's long-term insurance business transferred into LVLC, with LVLC then becoming the Group's primary long-term insurance entity.

Proposition
The products in LVLC are principally whole of life, with some endowments and term assurances, acquired from UIA in 2005. It also accepts a small volume of reinsurance business from external providers.

All business was written in the UK and given the nature of its business and relatively small size compared to other companies within the group, LVLC does not cede any reinsurance to external reinsurers. All products are currently closed to new business.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2022

Assets

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Fixed interest	16.2	14.8	12.0
Equities	0.0	0.0	0.0
Collectives	2.3	1.9	2.0
Property	0.0	0.0	0.0
Linked	0.0	0.0	0.0
Derivatives	0.0	0.0	0.0
Loans and mortgages	0.0	0.0	0.0
Reinsurance recoverables	0.0	0.0	0.0
Cash	0.3	0.9	0.4
Other	2.0	1.9	2.4
Total Assets	20.8	19.6	16.7

Liabilities

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Technical provisions - non-life	0.0	0.0	0.0
Technical provisions - health (similar to life)	0.0	0.0	0.0
Technical provisions - life	13.5	12.3	8.9
Technical provisions - linked	0.0	0.0	0.0
Other	0.4	0.2	0.4
Total Liabilities	14.0	12.5	9.3
Excess of assets over liabilities	6.8	7.1	7.4

Total assets decreased by 15% in 2022 [2021: 6%], as the UIA business continued to run-off and are predominantly fixed interest in nature, 72% as at 31 December 2022 [2021: 76%].

96% of total liabilities related to life business [2021: 98%]. The average duration of these remaining liabilities is around 13 years.

Life & Health SLT Technical Provisions

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Insurance with profit participation	0.0	0.0	0.0
Linked insurance	0.0	0.0	0.0
Other life insurance	13.4	12.2	8.9
Annuities - from non-life health	0.0	0.0	0.0
Annuities - from non-life non-health	0.0	0.0	0.0
Health insurance	0.0	0.0	0.0
Health reinsurance	0.0	0.0	0.0
Life reinsurance	0.1	0.1	0.0
Total life & health SLT technical provisions	13.5	12.3	8.9

Life Expenses

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	0.0	0.0	0.0
Insurance with profit participation	0.0	0.0	0.0
Linked insurance	0.0	0.0	0.0
Other life insurance	0.0	0.0	0.0
Annuities - from non-life health	0.0	0.0	0.0
Annuities - from non-life non-health	0.0	0.0	0.0
Health reinsurance	0.0	0.0	0.0
Life reinsurance	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0
Total life expenses	0.0	0.0	0.0

99.5% [2021: 99.2%] of technical provisions related to Other life insurance (UIA business) as at 31 December 2022, with the balance being reinsurance accepted.

Solvency Capital Requirement (SCR)

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Market risk	0.3	0.4	0.3
Counterparty default risk	0.2	0.1	0.0
Life underwriting risk	0.0	0.0	0.1
Health underwriting risk	0.0	0.0	0.0
Non-life underwriting risk	0.0	0.0	0.0
Diversification	(0.1)	0.0	(0.1)
Intangible asset risk	0.0	0.0	0.0
Operational risk	0.1	0.1	0.0
Capital add-ons already set	0.0	0.0	0.0
Other items	0.0	0.0	0.0
Solvency capital requirement	0.4	0.4	0.4

Eligible Own Funds

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Tier 1 unrestricted	6.8	7.1	6.8
Tier 1 restricted	0.0	0.0	0.0
Tier 2	0.0	0.0	0.0
Tier 3	0.0	0.0	0.1
Eligible own funds to meet SCR	6.8	7.1	6.9
Excess of own funds over SCR	6.4	6.6	6.5
SCR coverage ratio (%)	1,567.1	1,641.5	1,888.2

LVLC's post diversification risk exposures are market (76%), operational (11%), underwriting (9%) and credit counterparty (4%) [2021: 82%, 13%, 0% and 5%, respectively]. Market risk is further broken down as interest rates (37%), spread (10%) and concentration (53%) [2021: 40%, 5% and 55%].

At 31 December 2022, the SCR of £364k [2021: £431k] was again lower than the Absolute Minimum Capital Requirement (AMCR) of £3,445km [2021: £3,126k] that LVLC is required to hold. There was a small increase in the AMCR during 2022 due to a change in the Euro floor amount plus a change in the Euro/Pound exchange rate.

The AMCR coverage ratio reduced to 198% [2021: 226%].

Gross Life Premiums Written By Line of Business

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	0	0	0
Other life insurance	55	51	48
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	363	332	342
Life reinsurance	13	9	4
Total gross life premiums written	431	392	394

Gross Life Premiums Written By Country

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Home country	431	392	394
Country 1	0	0	0
Country 2	0	0	0
Country 3	0	0	0
Country 4	0	0	0
Country 5	0	0	0
Other countries	0	0	0
Total gross life premiums written	431	392	394

All business was written within the UK. The majority of premiums, 88% [2021: 87%] related to reinsurance accepted, which increased slightly from £341k to £346k. These reinsurance premiums relate to protection contracts for critical illness and term assurance polices for two insurers. UIA premiums continued to reduce from £51k to £48k, in line with the run off.

Profit

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Profit (loss) before taxation	523	264	(366)
Taxation	(246)	134	616
Profit (loss) after taxation	277	398	250
Other comprehensive income	0	0	0
Dividends	0	0	0
Retained profit (loss)	277	398	250

Life Business Flows

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Net life premiums earned	431	391	394
Net life claims incurred	(733)	(698)	(852)
Net flow of business	(302)	(307)	(458)

The large increase in interest rates in 2022 led to a significant fall in the value of the debt securities held but this was broadly offset by a reduction in the value of the underlying reserves, resulting in an overall loss before tax of £366k [2021: £264k, profit]. No dividend was paid [2021: £nil].

Net premiums earned increased slightly from £391k to £394k due to the run off nature of the insurance business, offset by an increase in reinsurance premiums received.

A 22% increase in net benefits and claims to £852k [2021: £698k] was driven by a worsening in claims experience in the reinsurance business.

There was therefore an increased net outflow of £458k [2021: £307k].

Guide

INTRODUCTION

For over 30 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports/provider.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

RATING DEFINITIONS

Overall Financial Strength Rating
The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	▣
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

With Profits Financial Strength Rating

The objective is to provide a simple indication of the with profits financial strength of a company, where it currently offers with profits business or has existing with profits business within it.

This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of with profits funds, products or propositions. Its comparison is with other companies within the assessment sector that offer or have with profits business.

The main criteria taken into account are: capital and asset position, expense position and profitability, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Reports.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Unit Linked Financial Strength Rating

The objective is to provide a simple indication of the unit linked financial strength of a company, where it currently offers unit linked business or has existing unit linked business within it. This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of unit linked products or propositions. Its comparison is with other companies within the assessment sector that offer or have unit linked business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Non Profit Financial Strength Rating

The objective is to provide a simple indication of the non profit financial strength of a company, where it currently offers or has existing products and propositions such as term assurance and annuities. This focuses on the company's ability to deliver sustained operational provision of such non profit products or propositions. Its comparison is with other companies within the assessment sector that offer or have non profit business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Service Rating
The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating
The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating
This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 30 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

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