

Chief Executive's Review

Richard Rowney

Chief Executive



172%

Solvency II Capital Coverage Ratio

Following the actions taken in 2017 to strengthen our capital position, 2018 has been all about putting the building blocks in place from which to build a sustainable future as a focused, life and pensions business.

Our capital position continues to be strong and our Capital Coverage Ratio remains at a healthy 172% with positive contributions from both trading businesses. At this level it is well within our risk appetite and maintaining this relative position will continue to be an area of management focus in the future.

Our general insurance strategic partnership with Allianz which came into effect at the start of the year is working well. We will complete the process of transferring the renewal rights for Allianz personal lines business to LV= in May and remain on track to complete the operational separation of the general insurance business including the associated transfer of support services currently provided to them ahead of plan.

At a group level, cost savings offset lower levels of trading performance which resulted in the operating profit remaining flat at £136m (2017: £134m). Profit before tax was hit by a number of one-off impacts leading to a significantly reduced profit before tax of £20m (2017: £122m) (see page 110).

We continue to make good progress in our programme to significantly reduce our cost base and on-going good cost control has resulted in a further £19m decrease in operating costs across life and general insurance.

Having a professional, proactive and effective risk function is fundamental to the success of any insurance business and during 2018 we bolstered our risk management capabilities through the appointment of Wayne Snow as chief risk officer and board member.

Looking to the future, we have identified a number of structural changes that we want to make to improve our ability to manage the business in the best interest of members and compete on a more level playing field with other insurers. Alan Cook touched on our planned changes in his Chairman's review and more information is available on pages 4 and 5.

Life

Trading conditions for our life business were tough in 2018 and while we delivered an operating profit of £60m in line with 2017, new business sales were down 13% at £1.80bn compared to £2.07bn in 2017. Further details relating to the life business financial performance can be found on page 22 and on pages 30 and 31.

During the second half of the year we took a number of actions to stimulate growth across both protection and retirement including a product refresh of Individual Income Protection and signing a deal with specialist fund manager Vanguard to offer a low-cost, high-value, passive pension investment option for our customers and advisers. Both initiatives have been well received in the market and provide good momentum going into 2019.

The concept of mutuality and the importance of membership are at the heart of LV=. We were founded in 1843 and like other long established life insurers some of our policies have been in existence for a very long time and over the years we have lost contact with many of these members because they've either moved house or passed away. As a mutual, we believe that reconnecting with lost members or their families is the right thing to do. In September we launched an advertising campaign focused on tracing old Liverpool Victoria Friendly Society Whole-Of-Life, savings and endowment policies. We will continue this work to reconnect with lost members in 2019.

General insurance

Our general insurance business delivered an operating profit of £107m and a combined operating ratio of 92.0% with prior year reserve releases partially offsetting the adverse impact of the severe weather at the start of the year, some one-off large losses on home insurance policies and on-going claims inflation which continues to outstrip premium inflation.

Overall premiums have remained flat at £1.6bn as we start to see the impact of the transfer in of personal renewal rights from Allianz and transfer out of commercial renewal rights to Allianz.

As part of the transfer in of the personal home and motor business we launched five new broker products across 1,400 brokers, of which around 150 are potential new partners for our general insurance business. We also continue to develop



£136m
Operating profit

the range of products available to our direct personal customers with the highly successful launch of our multi-car product.

The underlying business is performing well and our award winning service continues to attract and retain customers. Satisfaction levels remain very high with our net promoter score at +70.

Brand

We are very proud of the strength and heritage of the LV= brand and we maintain our ambition to be ‘Britain’s Best Loved’ insurer.

Being trusted and recommended by customers, members and intermediaries underpins our Best Loved ambition and we are therefore particularly pleased that we remain YouGov’s ‘Most Recommended’ insurer and in the Moneywise Customer Service Awards we were named Most Trusted Life Insurance provider for the sixth consecutive year.



Our general insurance business was named Insurance Brand of the Year at the Insurance Marketing and PR Awards.

At the Financial Adviser Service Awards in November LV= was awarded five star ratings in both the Investments and the Protection and Life and Pensions categories. In September we retained our title of ‘Best Income Protection Provider’ at the Investment Life & Pensions Moneyfacts Awards for the ninth year.



The strength of the LV= brand is not just about the awards that we win, at its core is the difference we make to people’s lives.

Members

As a mutual we don’t have shareholders, allowing us to share our surplus profits with our members.

We have allocated a mutual bonus for 2018 of £26m, through eligible policy uplifts ranging from 0.2% to 1.0%. Our mutual bonus scheme allows us to reward eligible members for their continued investment in the Society by sharing a portion of our surplus profits with them. Since the launch of the mutual bonus in 2011, LV= has allocated a total mutual bonus of £182m to eligible member policies.



Our members can also benefit from a range of specific benefits, such as product discounts, access to a support fund and access to free telephone based legal advice along with health, wellness and counselling services.

Through our Green Heart Support initiative, we continue to offer support, beyond just our policy or product, to members and customers going through a particularly difficult time. During 2018 we supported over 1,100 individuals and families with a personal touch ranging from hampers, to counselling support, to giving experiences for families to make some memories together.

Being a mutual enables us to make an extra difference to people’s lives and for our people it engenders a great sense of pride. You can read more about Green Heart Support on pages 6 and 7.

Gender pay gap and diversity

We have again this year published our gender pay gap report and at an overall level there has been no significant change to 2017’s results. This was expected as many of the actions we put in place to address our gender pay gap are long term and it will take a number of years before we start to see the changes taking affect.

At 28.5%, our mean gender pay gap is lower than the indicative average for the financial services industry (35%) but it’s still higher than the UK average for all industries (17%) as reported by the Office for National Statistics in 2017. Our median pay gap stands at 24.6%.

We have identified that our gender pay gap is driven by the structure of our workforce. At present, we have a lower representation of females in senior leadership roles and higher representation of females in more junior roles. While we recognise that we need to take specific action to tackle our gender pay gap by focusing our efforts on increasing the female population at senior levels this is only one part of the equation.

Taking a broader view we believe there is a need both to continue supporting all areas of our existing Diversity and Inclusion programme (disability, multi-cultural, sexual orientation and gender) and focusing on further fostering an inclusive culture in order to bring about real change.

We remain a signatory of the HM Treasury Women in Finance Charter and are committed to increasing the proportion of women in senior positions. As part of this commitment we have introduced targeted development programmes to support the career aspirations of talented females and to develop a broader pipeline of women to ‘balance the pyramid’ at all levels.

In 2017 and 2018 we delivered diversity training for our senior leaders to foster a more inclusive culture. Following its success we will be delivering this Call it Out training to our wider management population throughout 2019.

Strategy

I remain proud of the work that our people do day-in day-out to support our customers and members and am confident in the future direction of the organisation. 2019 will be another important year for LV= as we complete the second phase of the transaction with Allianz which will see them take a controlling stake in our general insurance business and we make the necessary structural changes that will provide the foundation from which to build a sustainable, focused life business and a mutual that is fitter for the future.

The LV= Strategic Report on pages 8 to 47 was approved by the board of directors on 21 March 2019 and signed on its behalf by:

Richard Rowney,
Chief Executive