

General Insurance Review

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Over

5 million

customer policies

When I reflect on 2018, I am exceptionally proud of what was achieved, particularly in the face of what was a challenging year for the industry with numerous bad weather events, including the Beast from the East followed by the hot summer resulting in a high number of subsidence claims.

We started the year as a brand new organisation, following the launch of the strategic partnership with Allianz. In the space of 12 months, we have successfully transferred the majority of the personal lines home and motor business from Allianz, created five new products and broadened our distribution with these new products offered across 1,400 brokers, of which around 150 were new partners to LV= Broker. We also started transferring our commercial lines portfolio to Allianz. All of this was achieved while maintaining a high level of service to our brokers and I am extremely grateful for the patience and professionalism shown by our employees.

Throughout the year, we have continued to focus on ensuring that our underlying business is performing well. We ended the year with the number of customer policies we have increasing by 7% to just over 5 million, which is an incredible growth rate in a competitive market. Our Net Promoter Score (NPS) at +70 puts us ahead of our target and in the world class category for customer satisfaction.

As well as focusing on the underlying strength of the business, we also put a significant amount of effort into transforming it to ensure that we're fit for the future. Within direct, we successfully completed our biggest ever transformation project with the full rollout of Pioneer, our new policy and billing system. This has already started delivering some great results, helping us launch our new Multi-car proposition which is proving very popular with customers. Within Claims, we introduced a number of new digital solutions and integrated machine learning models into our Guidewire Claimcenter application. Recognising that transformation isn't always about changing processes and operations and adopting new technologies, we also invested in our people with the launch of the Digital Transformation academy, an internally focused programme which provides a series of opportunities to help our employees learn new skills or gain qualifications within the technology and digital sectors.

It is the people in our company that make our business successful and it is with thanks to them that throughout the year we continued to be recognised for providing excellent service and good value to our customers, receiving a number of awards including Which? Recommended Provider for Car Insurance and Brand Management Award at the Insurance Post British Insurance Awards.

Looking more closely at our financials, our results for the year have been strong, despite the severe bad weather affecting our household account and significant inflation affecting motor repair claims costs.

Our 2018 operating profit of £107m (2017: £120m) includes an underwriting result of £99m (2017: £102m) and investment returns of £8m (2017: £18m). However, if we look at the lines of business we will continue to operate in (which excludes the commercial lines business transferring to Allianz), operating profits are up 7% at £135m (2017: £126m). The discontinued commercial lines generated an operating loss of £28m (2017: operating loss £6m), primarily due to an unprecedented number of large losses.

Investment returns at £8m continue to be low and were impacted in the first half of the year by losses of £7m on interest rate swaps contracts which were closed out in mid-year as part of a new investment strategy.

Although Gross Written Premiums of £1.6bn are 1% lower than 2017, underlying premiums have grown by 6%, excluding the impact of the transferring commercial lines business. As already noted, customer policies have also grown by 7% to reach 5.2 million.

In 2018, we experienced high levels of prior year reserve releases from a combination of continued anti-fraud delivery and the settlement of a number of higher value claims predicated upon the Civil Liability Act. We are obviously very pleased that the Civil Liability Bill received Royal Assent towards the end of last year and as a result we have revised our assumption for the Ogden Discount Rate to 0% (previously negative 0.75%). These combining factors have subsequently produced favourable prior year claims releases of £106m (2017: £46m).

There has also been a strong focus on cost control throughout 2018 and this will continue in 2019. The expense ratio improved by 0.5% to 22.1% (2017: 22.6%).



+70

net promoter score



£998m
direct premiums

Direct

We continued to grow in LV= branded motor and home portfolios as a result of high renewal retention and significant new-business sales following the launch of Multi-car and the extension of our home product range including policies tailored to buy-to-let landlords. This growth was supported by our continuous focus on providing great value products, underpinned by award-winning customer service. The full rollout of our Pioneer programme was also successfully completed and has been a key enabler in enhancing our product range and making it easier to do business with us. During the year, we also benefited from a major facelift to LV.com, with a completely new design and tone of voice designed to bring our brand personality to life.

As a result of all this work, direct customer policies passed 4 million, growing by 8% to 4.1 million and premiums grew by 4% from £960m in 2017 to £998m. Divisional operating profit of £101m (2017: £106m) was down slightly from the previous year mainly due to lower investment returns. Direct continued to deliver a great combined operating ratio of 89.9% (2017: 89.5%).

Broker

2018 has been a year of significant changes in the Broker division, most notably for the successful business transfers between LV= General Insurance and Allianz.

The business transfers allowed us to broaden our personal lines product range with five new products launched whilst continuing with our commitment to deliver high standards of customer service. In 2017, our ongoing commitment to service excellence was recognised with the award of the Institute of Customer Service ServiceMark Accreditation and in 2018 a mid-accreditation survey demonstrated that we have not just maintained our service standards but improved them. We are extremely proud that our brokers have given us a rating of 84.4 which is 5.7 above the insurance sector average.

2018 operating profit was £9m (2017: £30m). The personal lines business has continued to perform well and has delivered a profit of £44m, an increase of 19% year-on-year (2017: £37m). Unfortunately though, in 2018 we saw an unprecedented level of large losses within commercial lines which impacted the overall broker result. Broker premiums of £583m (2017: £636m) were impacted by the business transfers; although premiums on personal line products increased 13% from £356m to £402m. While the overall combined ratio declined to 99.0% (96.6% in 2017) the personal lines ratio improved from 91.5% to 88.1%.

Looking ahead

2019 will no doubt be another significant year of change for us, particularly as we move towards Allianz becoming our majority shareholder at the end of 2019. We also face the uncertainties pending the UK's stance on Brexit. With the world changing steadily around us, we must continue doing what we're good at while looking to the future and developing our business to meet customer needs. We've already been making excellent progress with this but we need to ensure that this remains a priority for us.

Trust is also going to be a key challenge for our industry in 2019 with for example the FCA market-wide study into the pricing practices of general insurance taking place this year. Our customers expect us to be there when the worst happens and on a very fundamental level our job is to bring peace of mind to the millions of customers we support. We know from our NPS scores and customer retention numbers that we have a unique position in our industry as a trusted brand but this is something we have never taken for granted and we know how important it is to ensure we do what is right for our customers.

We're proving every day that driven by our values, putting colleagues first and keeping customers at the heart of all we do we can overcome any challenges that we are faced with, and I am confident that we can continue to deliver the outstanding customer service that we are famous for.

