



# Chief Executive Officer's Review

## Mark Hartigan Chief Executive Officer

I am delighted to have been given the opportunity to lead LV=. We have an outstanding heritage of service and delivery to members, customers and partners.

This is an exciting time to be joining having just converted from a friendly society to a company limited by guarantee and successfully completed the sale of our general insurance business. The total consideration was £1.119bn including £619m for the final 51%. The board believes this deal represents excellent value for our members.

Overall the 100% sale of the general insurance business has added £389m to our Unallocated Divisible Surplus (UDS), and £950m to our capital surplus since 2017.

Our focus now is to build a sustainable life, pensions and investments business. In my first few weeks as I start to go around the business I am heartened and impressed by the hard work and dedication shown by our people, who collectively look after our members, customers and partners.

I may be the newest member of the executive team but there were two other key appointments during 2019. In January, Clive Bolton joined to run our Savings and Retirement business and in July, Debbie Kennedy joined to run our Protection business. Both Debbie and Clive bring extensive experience of the protection, life and pensions markets having worked at Royal London and Aviva respectively. Their expertise and knowledge is already bringing increased rigour to the management of these two lines of business.

### Financial highlights

Our capital position continues to be strong and our capital coverage ratio has increased to a very healthy 244% which includes the impact of the sale of the general insurance business. This takes our capital position above our risk appetite range of 140% to 200%. The board are currently considering how best to utilise this excess capital to optimise the benefits for our members and customers, see page 9.

We continue to make progress in reducing operating expenses, with a further £3m decrease primarily driven by a year-on-year reduction in staff numbers. Strong cost discipline will be increasingly important throughout 2020 as we make the transition from our old group structure to a pure life, pensions and investments business and we will need to reduce overall costs accordingly.

Trading conditions remained tough in 2019. This was due to a combination of factors including the continued decline in pensions, to levels seen prior to the 2015 freedom and choice reforms, and on-going investment market uncertainty. Against this background we delivered a life trading profit of £43m down from £50m in 2018.

New business sales on a present value of new business premiums (PVNBP) basis were down 26% at £1.3bn, compared to £1.8bn in 2018, reflecting our focus on the value of business over volume. Protection sales of £285m (2018: £296m) have been driven by a strong performance in our market leading income protection proposition offset by falls in term life and critical illness. In our retirement business, the fall in new business sales from £1,499m to £1,038m was due to lower volumes primarily in pensions and in flexible guaranteed bonds.

During the course of 2019 we introduced a number of new product developments. Within Savings and Retirement we launched a stocks and shares ISA alongside a repositioning of our flexible guaranteed products to create a suite of smoothed managed funds. We also added three discretionary fund managers to our investment panel.

In Protection we upgraded our income protection plan to support people living in rented accommodation, launched a 12 month option to our budget product, widened the support available under our Dr Services benefit and extended our second opinion services to all personal and business protection policies.



## 244%

Capital Coverage Ratio



## £1.119bn

Sale of the general insurance business



**Best Income  
Protection Provider**

## Brand

One of the great strengths of LV= is its brand. In a crowded market I believe this can be a differentiator with both advisers and customers alike. We must continue to work hard to live up to our reputation and go even further for our customers. Our business is built on foundations of trust. For LV= to be successful, advisers need to trust us to look after their customers and in turn those customers need to trust us to look after what can often be complex financial needs. One of the main attractions for Allianz in purchasing the general insurance business is the strength of our brand, which through our brand license agreement ensures they can continue to trade as LV= General Insurance. We are therefore particularly proud that in June we were named the UK's Most trusted life insurance provider in the Moneywise customer service awards for the seventh consecutive year, an award voted for by members of the public.

The quality of our products and service continues to be recognised by advisers. At the Financial adviser service awards in November, LV= was awarded five star ratings in both the investments, and life and pensions categories for the fifth and ninth years respectively.

In September we retained our title of Best income protection provider at the investment life and pensions Moneyfacts awards for the tenth year.

While it is always nice to be recognised by advisers and the public through external awards, what's more important is the difference we can make to people during some of the toughest times of their lives.

Through our Green Heart Support initiative we continue to provide gestures and support over and above what's provided by our products to our customers who need it most. During 2019 we supported over two hundred individuals and families with a personal touch ranging from flowers and children's gifts to hampers and financial support for hospital parking.

Our mutual status supports us to make these extra gestures and it provides our people with a great sense of pride that individually they can make a difference. You can read more about Green Heart Support on pages 14 to 15.

## Gender pay gap and diversity

All UK companies with at least 250 employees are legally required to report their gender pay gap on an annual basis.

We are encouraged to see that our gender pay gap for LVFS employees improved as measured on both a mean and median basis. Our mean gender pay gap improved by 4.3% to 30% and our median pay gap by 3.1% to 30.7%.

We have identified that our gender pay gap is driven by the structure of our workforce. While we have made some progress during 2019 we still have a lower representation of females in senior leadership roles and a higher representation of females in more junior roles. There remains much more to be done.

Taking a broader view we believe responsible businesses need to continue to focus on all areas of diversity and inclusion including disability, multi-cultural, sexual orientation and gender. This is something we take seriously at LV= and we were proud to be named in the first report on European Diversity Leaders by the Financial Times in 2019.

## Outlook

2019 will rightly be viewed as a pivotal year in the history of LV= and 2020 will be no less important. We start the year as a company limited by guarantee and a standalone life, pensions and investments business with clear intent to deliver profitable growth in the future.

As we continue to build a sustainable business that's fit for the future, we are reviewing our strategic agenda. While our ambition to be Britain's best loved insurer remains at the heart of our business, a clear focus on value growth will also be core to our plans, in order to maintain LV='s sustainability and deliver the best outcomes for our members and customers. Our new structure along our three business lines establishes a solid foundation from which to consider a range of strategic options for achieving our longer-term objectives.

LV= has a rich history and strong heritage, I look forward to working with all my colleagues to build on this and to serve our members, customers and partners.

