Liverpool Victoria Life Company SFCR

For the year ended 31 December 2019

Statement of directors' responsibilities

Financial year ended 31 December 2019

We certify that:

a) The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

b) We are satisfied that:

   i. throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

   ii. it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Company has continued so to comply, and will continue so to comply in future.

The Solvency and Financial Condition Report was approved by the Board of Directors on 14 May 2020 and signed on its behalf by:

Wayne Snow

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Wayne Snow
Director

14 May 2020

Liverpool Victoria Life Company Limited
County Gates
Bournemouth
BH1 2NF

A. Business and Performance (LVLC)

A.1 Business

a) Name and legal form of undertaking

Liverpool Victoria Life Company Limited is a UK-incorporated and domiciled company limited by shares.

For the contact details of LVLC please see part a) in chapter A.1 of the Liverpool Victoria Financial Services Limited (LVFS), formerly Liverpool Victoria Friendly Society Limited Solo SFCR.

b) Name and contact details of the supervisory authority responsible for financial supervision.

Firm's reference number: 110423

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are responsible for the financial supervision of the Company.

For the contact details of the PRA and the FCA please see part b) in chapter A.1 of the LVFS Solo SFCR.

c) Name and contact details of the external auditor

The Company has taken the exemption provided by PS25/18 to not have an audit opinion on its SFCR.

d) Description of the holders of qualifying holdings in the undertaking

LVLC is a wholly owned subsidiary of LVFS. As LVFS is a mutual organisation, there are no external qualifying holdings within the meaning of the Solvency II regulations.

e) Details of the undertakings within the group

For an explanation of the undertaking's position within the group please see part e) in chapter A.1 of the LVFS Solo SFCR.

f) Material lines of business and material geographic areas.

LVLC underwrites life insurance contracts within the UK.

As such the following Solvency II life lines of business are written:

- Other life insurance
- Health reinsurance
- Life reinsurance

g) Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

LVLC's main purpose during the year was to manage the run-off of the UIA (Insurance) Limited business acquired in 2005. The Company is also the reinsurer of Protection contracts consisting of term assurances and critical illness policies for which it receives premium income.

Changes of Directors during 2019 were as follows:

J T Perks - Resigned 25 February 2019
A M Parsons – Resigned 30 November 2019
R A Rowney – Appointed 10 May 2019, Resigned 31 December 2019

Apart from the director changes, the governance of LVLC remained stable and, the solvency position and overall strength of the business was consistent during the year.

LVLC used the Standard Formula to calculate its capital requirements throughout 2019, and this is expected to continue going forward.

LV= has regulatory approval for the submission of a Group ORSA report. This means that the outputs of the individual ORSAs conducted for each of the Insurance Entities, in addition to those of the LV= Group, must be documented within the Group ORSA Report. There were no specific recommendations in the ORSA relating to LVLC.

A.2 Underwriting performance

All business is underwritten in the UK and given the nature of the business and the relatively small size of the business compared to other companies within the LV= Group, LVLC has not entered into any reinsurance treaties to transfer insurance risk to an external reinsurer.

The following tables provide information on the income and expenses analysed by material lines of business written during the current and prior reporting periods:

2019	**Other life insurance**	**Health reinsurance**	**Life reinsurance**	**Total**
	£000	**£000**	**£000**	**£000**
Net earned premiums	**62**	**356**	**17**	**435**
Net claims incurred including changes in other technical provisions	**(579)**	**(150)**	**-**	**(729)**
Expenses incurred (excluding investment management expenses)	**(24)**	**-**	**(4)**	**(28)**
Net total	**(541)**	**206**	**13**	**(322)**

2018	Other life insurance	Health reinsurance	Life reinsurance	Total
	£000	£000	£000	£000
Net earned premiums	73	356	12	441
Net claims incurred including changes in other technical provisions	205	(278)	-	(73)
Expenses incurred (excluding investment management expenses)	(50)	-	-	(50)
Net total	228	78	12	318

In totality, net earned premiums and expenses incurred (excluding investment management expenses) remained relatively flat from 2018 to 2019 due to the run off nature of the UIA business. Net benefits and claims of £1,184k (2018: £974k) were also relatively flat. However, the resultant reduction in insurance contract liabilities of £455m (2018: £901m) has been suppressed by reserve strengthening during the year as market yields fell. The company matched assets to liabilities, with the fall in yields driving an increase in the value of its debt securities (as shown in A3 Investment Performance).

The income and expenses in the above tables are recognised on an IFRS basis but have been aligned to QRT S.05.01. Therefore claims management expenses are moved from net claims incurred to expenses incurred. Investment management expenses are removed from expenses incurred and included within investment performance.

As there are some minor differences in the accounting treatments required under Solvency II versus the financial statements, the Solvency II data tables have been reconciled to the financial statements as follows:

	2019	2018
	£000	£000
Net earned premium per the financial statements	**435**	441
Net total per Solvency II	**435**	441
Net claims incurred per the financial statements	**(1,184)**	(974)
Net change in insurance contract liabilities per the financial statements	**455**	901
Net total per Solvency II	**(729)**	(73)
Operating expenses per the financial statements	**(42)**	(69)
Less investment management expenses	**14**	19
Net total per Solvency II	**(28)**	(50)

A.3 Investment performance

The following tables summarise the investment performance, on an IFRS basis:

Investment income

LVLC	**2019 £000**	2018 £000
Income from investments at fair value through income		
- Dividend income	**3**	3
- Interest income	**450**	462
Interest on loans and receivables	**3**	2
Investment income	**456**	467

Net gains/(losses) on investments

LVLC	**2019 £000**	2018 £000
Gain/(loss) on investments at fair value through income		
- Debt securities	**637**	(301)
Gain/(loss) on investments	**637**	(301)

Gains on investments reflect market movements.

A.4 Performance of other activities

There are no other material income and expense items included for this organisation.

A.5 Any other information

There is no additional information to disclose for section A.

B. System of Governance (LVLC)

The system of governance for LVLC is described in Section B of the LVFS Solo SFCR.

The Directors of LVLC during the year were as follows:

A W Snow
J T Perks - resigned 25 February 2019
A M Parsons – resigned 30 November 2019
R A Rowney – appointed 10 May 2019, resigned 31 December 2019

C. Risk Profile (LVLC)

C.1 Overview

C.1.1 Overview of risk exposures

The product range in LVLC principally covers a mixture of whole of life assurances, endowment assurances and term assurances acquired from UIA Ltd in 2005, in addition to accepting a small volume of reinsurance business from external organisations. The Company does not cede any reinsurance to other parties and all lines are closed to new business.

The main area of risk exposure is market risk. Other risks contributing to the SCR are Credit Counterparty and Operational Risks, which are covered in more detail in the sections below. In addition, the contribution of these risks to the overall Solvency Capital Requirement (SCR) for LVLC is shown below. However, at 31 December 2019, the SCR falls below the Absolute Minimum Capital Requirement (AMCR) that LVLC is required to hold. This has been the case for some time and it is expected that this position is likely to continue going forward. The AMCR at 31 December 2019 was £3.19m.

Post Diversification Risk Capital, for the year ended 31 December	**2019**	**2018**	**Change**
Market risk	80%	83%	-3%
Operational risk	17%	14%	3%
Underwriting risk	0%	0%	0%
Credit Counterparty risk	3%	3%	0%
Total	**100%**	**100%**	

C.1.2 Measurement of risk exposures

A group wide approach is taken in measuring risk exposures. This is described within the main LVFS Solo SFCR in section C.1.2.

C.1.3 Prudent Person Principle

A common investment framework is employed across the LVFS Group and its subsidiaries. This is set out within the main LVFS Solo SFCR in section C.1.3.

C.1.4 Risk Concentration

There are no material concentrations of risk within LVLC. As a result, the SCR at 31 December 2019 falls below the AMCR.

C.1.5 Risk mitigation techniques

LVLC does not cede any business to either internal or external reinsurance parties, nor does it engage in any hedging strategies.

C.2 Underwriting risk

C.2.1 Underwriting Risk Exposure

LVLC is exposed to the following underwriting risks:

- Mortality Risk – the risk that a different pattern of mortality rates are experienced than those assumed in the calculation of the best estimate liabilities, potentially causing an increase in these liabilities.

This risk is managed through ongoing monitoring. Mortality risk is assessed but under current economic conditions it is zero.

C.2.2 Material changes over the reporting period

The underwriting risk over the period has reduced to zero. Expense risk has been totally removed within LVLC in accordance with the fixed-cost expense agreement between LVLC and LVFS.

C.3 Market risk

C.3.1 Market Risk Exposure

LVLC is exposed to the following market risks:

- Interest Rate Risk – this is present under all lines of business as the best estimate liabilities are calculated by discounting future cashflows.
- Concentration Risk – the risk arising from a large exposure to various counterparties across different forms. It includes the build-up of risk exposure to any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.

SCR split of market risk, for the year ended 31 December	**2019**	**2018**	**Change**
Interest rate risk	67%	79%	-12%
Concentration risk	33%	21%	12%
Total	**100%**	**100%**	

These risks are managed through aligning the investment strategy with the organisation's risk appetite and utilising asset liability matching. These actions aim to match the risks arising from the liabilities with the risks inherent in the assets used to back them.

C.3.2 Material changes over the reporting period

There have been no material changes in the level of market risk during 2019.

C.4 Credit Counterparty Risk

C.4.1 Credit Counterparty Risk Exposure

LVLC is exposed to the default of counterparties of investments, where money owed to LVLC cannot be recovered.

Credit Counterparty Risk concentrations are monitored across the Group, aggregating similar risks that arise in distinct Group entities where necessary, to ensure that unexpected sensitivities to risks are not allowed to build up.

Credit Counterparty risk is described further in section C.4 of the main LVFS Solo SFCR.

C.4.2 Material changes over the reporting period

There have been no material changes in the level of credit counterparty risk during 2019.

C.5 Other Risks

Liquidity, Operational and other risks are managed at a Group level and are described further in sections C.5, C.6 and C.7 of the LVFS Solo SFCR.

C.6 Sensitivities

No stress and scenario testing is conducted for LVLC because of the limited risk exposures within the Company. In addition, the absolute minimum capital requirement applies and is expected to continue to apply going forward.

D. Valuation for Solvency Purposes (LVLC)

D.1 Assets

For Solvency II valuation purposes, assets and other liabilities are valued consistently with IFRS provided that IFRS valuation methods are consistent with Article 75 of Directive 2009/138. Asset and liability values represent the fair value amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Reconciliation between IFRS and the Solvency II valuation		2019		
		IFRS	**Adjustments**	**Solvency II**
Assets	**Note**	**£000**	**£000**	**£000**
Investments (other than assets held for index-linked and unit-linked contracts)	1	**15,411**	4,095	**19,506**
Bonds		14,465	3,074	**17,539**
Collective Investments Undertakings		946	-	**946**
Deposits other than cash equivalents		-	1,021	**1,021**
Cash and cash equivalents	2	**4,524**	(4,021)	**503**
Trade receivables	#	**24**	-	**24**
Any other assets, not elsewhere shown	#	**104**	(74)	**30**
Total assets		**20,063**	-	**20,063**

#= Disclosure note not provided as Solvency II value equal to IFRS or the amounts are immaterial.

Supporting Notes

1. Investments

For Solvency II valuation purposes, financial assets are valued consistently with IFRS. However there are mapping differences between the IFRS and Solvency II hierarchies with certain assets being presented differently under IFRS.

Under IFRS, financial assets are valued at fair value through income which has two sub categories:

– Financial assets held for trading; and
– Those designated at fair value through income at inception.

Financial assets designated at fair value through income at inception are measured at market prices, or prices consistent with market ratings should no price be available. Day one gains are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Financial assets at fair value through income; further information is provided in the table below.

Fair value estimation

For Solvency II valuation purposes, the fair value measurement hierarchy is as follows:

- Quoted market prices in active markets for same assets and liabilities (QMP). This is the default valuation method and is broadly consistent with Level 1 category assets under IFRS.
- Quoted market price in active markets for similar assets (QMPS). Maximum use is made of relevant market inputs such as quoted prices for identical or similar assets in an inactive market, observable inputs other than quoted prices and market corroborated inputs derived from observable market data. This is broadly consistent with Level 2 category assets under IFRS.
- Other alternative valuation method (AVM). Unobservable inputs reflecting the assumptions market participants would use when pricing the asset or liability, including assumptions about the risk inherent in both the inputs and the

valuation technique. The undertaking uses various valuation approaches, including market, income and cost approaches. This is broadly consistent with Level 3 category assets under IFRS.

- Adjusted Equity Method (AEM) for Participations.

The following table presents the financial assets measured at fair value at 31 December 2019:

	QMP	QMPS	AVM	AEM	Total
	£000	£000	£000	£000	£000
Government bonds	14,532	-	-	-	14,532
Corporate bonds	3,004	3	-	-	3,007
Collective Investments Undertakings	946	-	-	-	946
Deposits other than cash equivalents	1,021	-	-	-	1,021
Investments (other than assets held for index-linked and unit-linked funds)	**19,503**	**3**	**-**	**-**	**19,506**

2. Cash and cash equivalents

For Solvency II valuation purposes, cash is valued consistently with IFRS with a reclassification adjustment for short-term bank deposits which are included in investments (other than assets held for index-linked and unit-linked funds) as deposits other than cash equivalents.

Under IFRS, cash and cash equivalents comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less. These are valued at fair value based on amounts receivable on demand.

Cash and cash equivalents	**£000**
Bank Balances	503
Short-term bank deposits	4,021
Total cash and cash equivalents - IFRS	**4,524**
Reclassify short-term deposits into bonds and deposits	(4,021)
Total cash and cash equivalents - Solvency II valuation	**503**

D.2 Technical provisions

D.2.1 Technical provisions by line of business

The following table sets out the LVLC technical provisions split by Solvency II lines of business as at 31 December 2019.

	31 December 2019 - £000		
Line of Business	**Best Estimate Liability (BEL)**	**Risk Margin (RM)**	**Total Solvency II Technical Provisions**
Health insurance	25	0	25
Other life insurance	13,037	53	13,090
Total Life insurance obligations	**13,062**	**53**	**13,115**

D.2.2 Technical Provisions methodology and assumptions

A description of the bases, methods and assumptions used for valuation of the technical provisions is set out in the following sections.

D.2.2.1 Technical Provisions methodology and assumptions

Technical Provisions have been calculated as the sum of the Best Estimate Liabilities (BEL) and Risk Margin. The Transitional Measure on Technical Provisions is not used in LVLC.

<u>BEL</u>

The BEL is the probability weighted average of future cashflows required to fulfil obligations to policyholders under existing contracts taking account of the time value of money using the relevant risk-free interest rate term structure. There is no reinsurance ceded by LVLC to either internal or external reinsurers, so all cashflows are calculated gross.

<u>Risk Margin</u>

Given its low level of materiality, the Risk Margin has been approximated. Appropriate allowance has been made in the calculation for the SCR, the average duration of the liabilities and the cost of capital.

<u>Discount Rates</u>

The basic risk-free interest rate structure as published by EIOPA was used. No transitional adjustment, Matching Adjustment or Volatility Adjustment was made to the discount rate.

<u>Tax</u>

All products are classified as Basic Life Assurance and General Annuity Business (BLAGAB).

<u>Mortality</u>

A standard population mortality table is used to reflect the mortality risk within LVLC, with no adjustment.

Persistency

It is assumed that all policyholders retain their policies until maturity/expiry or earlier death.

Expenses

Expenses are fixed at £2 per month per policy in accordance with the fixed-cost agreement between LVLC and LVFS.

Investment Expenses

Investment expenses are modelled through an adjustment to the discount rate.

D.2.3 Uncertainly within the Technical Provisions

The calculation of the Technical Provisions is based on data, assumptions and models, which may not reflect actual future experience. In addition some simplifications are used where appropriate. As such a level of uncertainty is associated with these results.

D.2.4 Comparison of Solvency II and IFRS Technical Provisions

The table below shows the difference between the technical provisions under Solvency II and IFRS.

	31 December 2019 - £000		
Technical Provisions	**Solvency II Value**	**IFRS Value**	**Difference**
Health insurance	25	25	-
Other life insurance	13,090	13,112	(22)
Other – claims liabilities	-	104	(104)
Total Life insurance obligations	**13,115**	**13,241**	**(126)**

As at 31 December 2019, the main differences between the Technical Provisions shown on an IFRS basis and those on a Solvency II basis are that:

- Under Solvency II a Risk Margin is added to the liabilities.
- The discount factor used to discount future cashflows is different under the two regimes. IFRS technical provisions are calculated using a flat discount rate based on gilt yields. Under Solvency II, a curve is used as prescribed by EIOPA and derived from swap rates.

D.3 Other liabilities

Reconciliation between IFRS and Solvency II value		**2019**		
		IFRS	**Adjustments**	**Solvency II**
Other Liabilities	**Note**	**£000**	**£000**	**£000**
Insurance and intermediaries payables	1	17	104	121
Payables (trade, not insurance)	#	6	1	7
Any other liabilities, not elsewhere shown	#	259	-	259
Total other liabilities		**282**	**105**	**387**

#= Disclosure note not provided as Solvency II value equal to IFRS or the amounts are immaterial.

Supporting Notes

1. Insurance and intermediaries payables

For Solvency II valuation purposes, insurance and intermediaries payables are valued consistently with IFRS. However there are presentational differences where under IFRS the Life Claims outstanding are disclosed as part of the technical provisions and for Solvency II purposes are reclassified to insurance and intermediaries payables.

Under IFRS, Insurance payables are recognised when due and include amounts due to policyholders, agents, brokers and intermediaries. Insurance payables are initially recognised at fair value and subsequently held at amortised cost.

Insurance and intermediaries payables	**£000**
Due to policy holders	17
Total insurance and intermediaries payables - IFRS	**17**
Reclassification from technical provisions to insurance and intermediaries payables	104
Total insurance and intermediaries - Solvency II valuation	**121**

The maturity profile of the liability recognised in the financial statements is summarised in the following table:

						£000
	Within 1 year	**1 - 3 years**	**3 - 5 years**	**Over 5 years**	**UL**	**Total**
Insurance and intermediaries payables	**17**	**-**	**-**	**-**	**-**	**17**

D.4 Alternative methods for valuation

There are no material assets or liabilities for LVLC that use alternative valuation methods.

D.5 Any other material information

All relevant information is provided in the sections above and as such, no further information is disclosed here.

E. Capital Management (LVLC)

E.1 Own funds

The key capital management policies and objectives for LVLC are set at Group level and are consistent across all entities. The approach to measuring and monitoring capital for LVLC is defined and actioned at Group level. In addition the Group backs all the underlying entities and has in place mechanisms to support these capital positions if necessary.

For further information on these please see section E.1a and E.1b of the LVFS Solo SFCR.

The following table details the structure, amount and quality of basic own funds.

	Tier 1 £000	Tier 2 £000	Tier 3 £000	Total £000
Ordinary share capital	100	-	-	100
Reconciliation reserve	6,461	-	-	6,461
Total Basic Own Funds	**6,561**	**-**	**-**	**6,561**
Total available Own Funds to meet the SCR	**6,561**	**-**	**-**	**6,561**
Total available Own Funds to meet the MCR	**6,561**	**-**		**6,561**

The following tables detail the eligibility of own funds to meet the SCR and MCR.

Total available Own Funds to meet the SCR	**6,561**	-	-	**6,561**
Capital restrictions	-	-	-	-
Total eligible Own Funds to meet the SCR	**6,561**	**-**	**-**	**6,561**

Total available Own Funds to meet the MCR	**6,561**	-		**6,561**
Capital restrictions	-	-		-
Total eligible Own Funds to meet the MCR	**6,561**	**-**		**6,561**

The basic own funds structure for LVLC is a combination of ordinary share capital and the reconciliation reserve which are both classified as Tier 1.

Changes in own funds during the reporting period

LVLC is a wholly-owned subsidiary of LVFS.

	LVLC		
	1 January 2019 £000	**Movement £000**	**31 December 2019 £000**
Eligible own funds			
Tier 1 capital	6,039	522	**6,561**
Total capital	6,039	522	**6,561**
Made up of:			
Equity shares	100	-	**100**
Reconciliation reserve / surplus	5,939	522	**6,461**
Total capital	6,039	522	**6,561**
Total eligible own funds to meet SCR	6,039	522	**6,561**

- Tier 1 capital includes movements in excess of assets over liabilities.

Ancillary own funds

At 31 December 2019 there were no ancillary own funds.

Deductions from own funds

At 31 December 2019 there were no deductions from own funds.

Explanation of the key elements of the reconciliation reserve

Reconciliation reserve	**£000**
Retained earnings on a Solvency II basis	6,461
Total	**6,461**

Material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes

The following table provides a reconciliation of equity under IFRS to Solvency II excess of assets over liabilities:

	At 31 December 2019	
	£000	**£000**
Analysis of Equity - IFRS		
Ordinary shares, allotted and fully paid	100	
Retained Earnings	6,440	
Total Equity - IFRS		**6,540**
Solvency II Adjustments (excluding reclassifications)		
Technical provisions		126
- Decrease in valuation of technical provisions (Section D.2.4)		
Other liabilities		
- Increase in payables (Section D.3)		(105)
Total Equity – Solvency II basis		**6,561**
Total own funds - Solvency II basis		**6,561**

Excess of Assets over Liabilities - Solvency II basis	
Total Assets	20,063
Total Technical Provisions	(13,115)
Total Other Liabilities	(387)
Excess of Assets over Liabilities – Solvency II basis	**6,561**

As detailed in the table above, numerous Solvency II adjustments were made to the balance sheet values as reported in the statutory financial statements. The adjustments arose from different valuation rules under Solvency II compared to the statutory financial statements.

Own-fund item that is subject to the transitional arrangements

LVLC has no own fund items subject to transitional relief.

E.2 SCR and MCR

E.2.1 SCR and MCR

The following table shows the amount of the SCR and MCR for LVLC:

£000	**2019**	2018
Solvency Capital Requirement (SCR)	**352**	419
Minimum Capital Requirement (MCR)	**3,187**	3,288

There has been no material change in the SCR during 2019. The SCR has decreased by £67k during 2019. There has been a small decrease in the Absolute Minimum Capital Requirement during 2019 due to a change in the Euro/Pound exchange rate over the period.

E.2.2 SCR split by risk

The following table summarises the risk modules which contribute to the Solvency Capital Requirement for LVLC applicable under standard formula.

Year-end 2019 - all figures in £000

Category	**Specific Risk**	**Post Diversified Capital Requirement**
Credit Counterparty Risk		**11**
	Interest	190
	Concentration	92
Market Risk		**282**
	Mortality	-
Underwriting Risk		**-**
Liquidity Risk		**-**
Operational Risk		**59**
SCR		**352**

E.2.3 Basis of calculation

LVLC uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. LVLC is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

E.3 Use of a duration-based equity risk sub-module

LVLC has not applied the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between Standard Formula and any Internal Model used

This does not apply as LVLC does not use an Internal Model to derive its SCR.

E.5 Non-compliance with the MCR and the SCR

LVLC has maintained Own Funds in excess of the MCR (and hence the SCR) throughout the reporting period.

E.6 Any other information

There is no additional material information regarding capital management to disclose in this section.