ISSUED 12 December 2022

PROVIDER SECTOR

Scottish Widows

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd

Accessible • Comparative • Independent

AKG

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 A
FINANCIAL STRENGTH RATED
PROVIDER SECTOR SUPERIOR
SCOTTISH WIDOWS LTD

Additional Financial Strength and Supporting Ratings

	Non Profit Financial Strength	Unit Linked Financial Strength	With Profits Financial Strength	Service	Image & Strategy	Business Performance
Scottish Widows Ltd	★★★★★	★★★★★	★★★★	★★★★	★★★★★	★★★★

SUMMARY

- Scottish Widows Ltd (SWL) represents the UK long term life insurance business of Lloyds Banking Group plc (LBG), and is the key provider of life assurance and pensions in the Group with £174bn of funds under management
- The purchase of the Zurich workplace business is demonstrative of a growth and development focus in key customer areas and was completed in July 2019
- The acquisition of Embark is positioned to enable the delivery of what the business sees as a market-leading, modern and self-managed investment offering for direct customers including robo-advice
- Embark should also enable the reinvigoration and enhancement of Scottish Widows' intermediary proposition. The acquisition offers the group more diversified revenue streams and further enables the group's strategy, for which Scottish Widows is positioned as a key engine of growth
- Solvency coverage has remained good, including through the pandemic, with SWL reporting as part of the Insurance, Pensions and Investments (IP&I) division of LBG
- The rationalisation and simplification of the Insurance business has been a positive move with a well diversified portfolio of risks
- Further growth potential comes from a combination of customer behaviour, the use of digital and the particular positioning Scottish Widows is afforded by its place within LBG. There is significant indication of progress and an underlining of commitment to this
- A major development here being the Single Customer View capability, which provides customers with the ability to view their pensions and long-term savings products alongside their banking products
- As part of its Brexit preparations, LBG formed a new Luxembourg based company: Scottish Widows Europe S.A. (SWE). SWL's existing European business was transferred to SWE
- With Charlie Nunn joining LBG in August 2021 as Group Chief Executive Officer, 2022 saw the unveiling of a new strategy focused on prioritising opportunities across each of LBG's businesses to grow and diversify revenue streams, whilst deepening relationships with its customers

COMMENTARY

Financial Strength Ratings

At 31 December 2021, LBG reported an increase in its CET1 capital ratio to 17.3% [2020: 16.2%]. The pro forma CET1 capital ratio at this date was 16.3% reflecting the final dividend received from the Insurance business in February 2022 and an accrual for the announced ordinary share buyback programme of up to £2.0bn that acknowledged the level of its surplus capital. The Board's view of the ongoing level of CET1 capital required to grow the business, meet current and future regulatory requirements and cover uncertainties continues to be around 12.5%, plus a management buffer of around 1%.

At the same date, the SWG 'shareholder view' solvency ratio was 191% (181% after the proposed dividend of £300m paid in February 2022 or 170% on a pro-forma basis allowing for the planned Embark acquisition, which completed on 31 January 2022, and the proposed dividend) [2020: 151% on a pre-dividend basis]. This ratio excludes the contribution to both Own Funds and the SCR from the ring-fenced element of the with-profits funds and is consistent with how internal risk appetite metrics are set and managed.

The equivalent regulatory view of the Solvency II ratio (including the With Profits funds and post-dividend) was 170% [2020: 144%].

The Group states that it has maintained a robust solvency position in light of the volatile markets and economic impacts caused by the ongoing COVID-19 pandemic.

As the UK's only integrated financial services provider LBG should be well placed to deliver holistic solutions in areas such as Insurance and Wealth management, alongside its traditional Retail and Commercial Banking activities. This includes the growth of the wealth joint-venture, Schroders Personal Wealth, as well as the acquisition of Embark. These businesses enhance existing capabilities and permit LBG to meet more of its customers' broader financial needs.

Scottish Widows Ltd

SWL is LBG's sole UK long term insurance company. With business now more evenly distributed between the intermediary market and its bank parentage, the IP&I Division is a core component within LBG, both with regards to the width it provides for the overall proposition as well as its cash generation role and ongoing dividend stream. The inclusion of Scottish Widows in the development of LBG's Single Customer View being an example of this core positioning.

Retained unit linked business is by far the most significant business line. Whilst Scottish Widows and Clerical Medical both have strong with profits heritages, with profits business now forms a reducing minority of the company's business, at 6% [2020: 7%] of the total reserves (£10.0bn out of a total of £160.6bn). This proportion is expected to continue to reduce now that the company's new business efforts are focused on non profit and unit linked product lines.

The scale of SWL, which had increased substantially after the major group re-structuring on 31 December 2015, was further boosted in 2019 by the transfer in from Zurich.

On a Solvency II basis, SWL disclosed an SCR Coverage Ratio of 160.6% at the end of 2021, based on Own Funds of £6.9bn (after excluding £1.3bn Own Funds in the ring-fenced with profits funds) and an SCR of £4.3bn [2020: 142.3% SCR Coverage Ratio, £7.4bn Own Funds (excluding £1.1bn), £5.2bn SCR]. SWL uses an internal model, with transitional measures on technical provisions (TMTP), and with a matching adjustment (MA). The MA contributes significantly to the solvency ratio of both SWL and SWG, with removal reducing the solvency ratio and excess capital materially. Without the use of TMTP and MA, SWL's SCR ratio would be 54% [2020: 49%].

SWL regularly monitors its liquidity position to ensure that, even under stressed conditions, it has sufficient liquidity to meet its obligations and remain within the approved risk appetite. As at 31 December 2021, SWL had liquidity coverage of 136% [2020: 132%]. During 2021 there was an improvement in the excess liquidity position with an increase in the liquidity coverage over the year. This was driven by the restructuring of swap positions as part of the transition from LIBOR to SONIA. Market movements were volatile during the year, but due to the offsetting nature of these impacts, this has led to minimal net movements in the excess liquidity position.

LBG aims to serve its customers' lifetime banking, insurance and wealth needs in one place through a comprehensive product range, with SWL being a key component of this.

Service Rating

Previous service issues caused by high initial volumes of auto-enrolment and pension freedoms business were recognised strategically by LBG some time ago and a range of initiatives have been put in place to transform the service experience for employers, advisers and members since then.

Significant investment in staff training resulted in case ownership of customer service requests and a transformed telephony service completion at first point of contact. Investment and focus on systems and infrastructure which underpin service delivery was also deployed. As a result service delivery was improved and the business regained its positive service position. It has since maintained this and again won a number of awards alongside positive internal and independent metrics.

The Customer Satisfaction Net Promoter Score (NPS) for Scottish Widows reduced slightly to 44 in 2021 [2020: 45].

The NPS across LBG as a whole, as at December 2021, has increased by over 50% since 2011, standing at an all time high of 69.3 [2020: 68.8].

Image & Strategy Rating

LBG has a multi-brand approach, offering its services through a number of recognised brands in order to 'address the needs of different customer segments more effectively'.

Underpinned by its purpose of 'Helping Britain Prosper', 2022 saw LBG launch a new strategy to profitably deliver for all of its stakeholders. Core to the purpose and strategy is a focus on building an inclusive society and supporting the transition to a low carbon economy.

LBG's strategic vision is to be a UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale. It will look to deepen relationships with existing customers, both consumers and businesses of all sizes, and meet more of their financial needs by making its products more relevant to them and its channels simpler and more personalised to use. LBG will also retain a strong focus on cost and capital discipline.

LBG aims to serve its customers' lifetime banking, insurance and wealth needs in one place through a comprehensive product range. With ever increasing competition, LBG is aware of the evolving competitive environment and recognises that it must continue to build on and develop its competitive strengths, through diversification of its business, expanding its offering to customers and capturing new growth opportunities. LBG is investing in data capabilities to personalise and deepen its customer relationships and meet a broader range of needs, whilst ensuring it faces the ethical considerations posed by new data uses.

With this focus and the recent acquisition of the investment and retirement platform Embark, LBG has increased its public target for net customer flows into its IP&I business.

The IP&I division's aim is to become "Britain's preferred financial partner for pensions and financial planning, helping to rebuild households' financial health and wellbeing, and meeting more of the LBG customers' financial needs, increasingly with carbon neutral investments".

For Life and Pensions the strategy is focussed on four core markets: Protection, Pensions, Retirement and Annuities, with Scottish Widows the lead Group brand and proposition used in each of these areas and where Scottish Widows sees the opportunity to participate in and influence the transition to a low carbon economy for the long-term benefit of customers and society. In General Insurance the focus remains on being customer centric and leveraging the advantage of being part of LBG plc.

The three core components of the strategy are:

- Delivering a leading customer experience
- Digitising the Group
- Maximising the Group's capabilities

Initiatives and achievements in 2021 which support the delivery of the strategy include:

- The agreement to acquire Embark, which was subsequently completed on 31 January 2022
- Progressing the Group's vision to be the preferred financial partner for personal customers, with over £7bn net new money in Insurance and Wealth Open book AuA
- Completion of around £0.8bn of loan investments within the Group including the first Sustainability Linked Loan in the social housing sector
- Growth in Workplace Pensions market share to an estimated 19%
- Achieving 5 stars at the Financial Adviser Service Awards for the sixth consecutive year

Opportunities for a recognised customer brand in the retirement market following the pension freedoms changes are clear and Retirement Account is positioned to play a key role in business acquisition/retention in this area. However, access to, and valid interpretation of, deep customer insight will be key to understanding and converting these opportunities. Given LBG's wider business experience and customer reach there is scope for knowledge sharing and relationship leveraging for the benefit of Scottish Widows, but this activity will need to be carefully aligned and managed in order to be productive. The ability to deliver across multiple distribution channels will also be critical but the balancing act between these different channels, propositions and segments also needs to be carefully managed to ensure optimum penetration.

The strategy for Scottish Widows acknowledges the requirement for investment in digital capability and IT infrastructure, both of which will be crucial for the successful delivery of the various product/proposition, service and distribution initiatives within the business. But cost, process and systems efficiencies still need to be targeted post integration of various businesses in LBG. The acquisition of Embark provides a digital, mass market, direct-to-consumer proposition, complementing the Group's existing advice offerings via Schroders Personal Wealth and Cazenove Capital.

Awareness of the brand remains strong in terms of positive customer recognition and Scottish Widows continues to support initiatives which raise awareness of key market themes, including the requirement for long term savings, and to participate in discussion which informs the future direction of the Life & Pensions industry.

At a wider strategic level the partnership LBG has entered into with Schroders for the 'Schroders Personal Wealth' proposition is indicative of an appetite for taking an increased share of a growing and changing advice market, particularly one with an increasingly digital element. While the pandemic has caused some delays, the Group's ambition for Schroders Personal Wealth to become a top three UK financial planning business remains unchanged, although the target date for this is now by 2025.

Scottish Widows has announced a target of reaching net zero carbon emissions across its investment book by 2050, with an intermediate target of halving its investments' relative carbon footprint by 2030.

LBG will look to enhance its commercial propositions with Moneyhub's services, using its Open Data technology to support strategic goals.

Following the findings of an investigation into the way the general insurance companies had communicated with home insurance customers about renewal of their policies between 2009 and 2017, the FCA imposed a fine on companies which form part of the business unit with £46m being attributed to Lloyds Bank General Insurance Ltd (LBGIL) and £45m being attributed to St. Andrews Insurance plc (StAI). Each fine was settled in full on 16 July 2021.

Business Performance Rating

SWL reported a consolidated loss after tax of £8m in 2021 [2020: £164m, loss restated]. This consists of a shareholder loss before tax of £3m [2020: loss before tax of £232m] and a tax charge of £5m [2020: taxation credit of £68m]. The result is reflective of interest rate movements and changes in demographic assumptions including a reduction of prudent margins during the year. SWL paid dividends of £200m in 2021 [2020: £560m].

Life and pensions sales (PVNBP) for the year increased by 19% to £17.3bn [2020: £14.5bn], with year on year increases across all propositions with the exception of Bulk Annuities, which were impacted by reduced activity in the market. Workplace pensions and Protection sales increased by 30% and 42% respectively.

SWG received dividends totalling £310m [2020: £560m] from its subsidiaries in 2021 and paid dividends of £74m [2020: £549m] to LBG, in accordance with its risk appetite policy.

The IP&I division reported a 26% increase in underlying profit before tax to £427m in 2021 [2020: £338m], despite the £91m regulatory fine settled in the first half of 2021.

IP&I contributed 5% [2020: 15%] of LBG's underlying profit in 2021, with Consumer Lending and Relationships contributing 64% [2020: 91%], Commercial and Corporate Banking 23% [2020: 4%] and Equity Investments and Central Items 8% [2020: 11% negative].

LBG's statutory profit before tax increased by 463% in 2021 to £6.9bn [2020: £1.2bn]. Statutory profit after tax increased by 324% to £5.9bn [2020: £1.4bn]. Increased profits benefitted from higher income and the net underlying impairment credit of £1.2bn in 2021 [2020: underlying impairment charge of £4.2bn], driven by improvements to the macroeconomic outlook for the UK, combined with robust observed credit performance. Underlying profit before impairment increased by 6% to £6.8bn [2020: £6.4bn] with increased average interest-earning assets, a strengthened banking net interest margin and early signs of recovery in other income, alongside a reduction in operating lease depreciation.

Group & Parental Context

BACKGROUND

Lloyds Bank was originally founded as Taylors & Lloyds in 1765, in Birmingham. Significant development followed including the acquisition of Cheltenham & Gloucester Building Society in 1995 and then TSB later that year to create Lloyds TSB Group plc. The Group was then renamed Lloyds Banking Group plc in January 2009. This followed the acquisition of HBOS plc, which created the largest retail bank in the UK, then part-owned by HM Treasury. Within this, the Insurance Division encompassed all the insurance companies that previously operated within the two banks.

The UK Government injected over £20bn into LBG by way of bail out in 2008, but had reduced its investment over time, with the Group returning to full private ownership in May 2017. 2017 also saw LBG complete the acquisition of MBNA's prime credit card business, its first major acquisition since the financial crisis.

Scottish Widows was acquired by Lloyds TSB plc in March 2000. It distributed through the Lloyds branch network and intermediaries, and directly via telephone and with an online presence. It had four UK life subsidiaries - the main company Scottish Widows plc (SWplc), together with the specialist subsidiaries Scottish Widows Unit Funds Ltd (SWUF - linked pensions business), Scottish Widows Annuities Ltd (SWA - non-profit pension annuities), and Pensions Management (SWF) Ltd (PMSWF). HBOS operated a multi-brand, multi-channel approach, with Clerical Medical Investment Group Ltd (CMIG), Halifax Life Ltd (HLL), St Andrew's Life Assurance plc (SAL) and St. James's Place UK plc, which was sold in 2013. CMIG was the primary HBOS intermediary product provider, together with Clerical Medical Managed Funds Ltd (CMMF), CMI Insurance Company Ltd (an Isle of Man based company now closed to new business and sold to RL360) and HBOS Investment Fund Managers Ltd.

From December 2010, the LBG Insurance Division distributed all its intermediary life, pensions and investment business through a combined salesforce operating under the Scottish Widows brand. In July 2011, a corporate restructuring led to the formation of one insurance group, under the ownership of Scottish Widows Group Ltd (SWG). In 2013 LBG completed the sale of Scottish Widows Investment Partnership (SWIP) to Aberdeen Asset Management. On 31 December 2015, a major simplification of the Scottish Widows Group took place. The business of SWplc, SWUF, SWA, PMSWF, HLL, SAL and CMMF was transferred into CMIG, which was renamed Scottish Widows Ltd (SWL).

LBG now operates through three business divisions: Consumer Lending and Relationships (previously known as Retail), Commercial and Corporate Banking and IP&I (previously known as Insurance & Wealth). SWG and its subsidiaries (the Insurance Group) form part of the IP&I Division of LBG, which offers insurance, investment and wealth management products and services, supporting around 10 million customers with assets under administration of £210bn and annualised annuity payments of over £1.1bn. SWG has a presence in life and pensions through SWL and in general insurance through Lloyds Bank General Insurance Holdings Ltd, which owns two general insurance companies: LBGIL and StAI.

On 12 October 2017, LBG entered into an agreement to acquire the UK workplace pensions and savings business from the Zurich Group. The acquisition enabled Scottish Widows to accelerate the development of its financial planning and retirement business and brought around £21bn of assets under administration. The savings business was acquired by Scottish Widows Administration Services Ltd, a subsidiary undertaking, with this transfer completed in April 2018. SWL acquired the pensions business, via a Part VII transfer, in July 2019. The transaction also included a multi-year, exclusive distribution partnership for Zurich to provide group life protection solutions to certain corporate clients of LBG's Commercial Banking services.

LBG has implemented its ring-fencing programme, including the establishment of the non ring-fenced bank, Lloyds Bank Corporate Markets plc (LBCM), and met the legal and regulatory requirements on 1 January 2019. As a predominantly UK retail and commercial bank, the impact on the Group was relatively limited, with minimal impact for the majority of its retail and commercial customers. Over the course of 2018, in order to comply with this legislation, certain businesses were transferred out of Lloyds Bank plc and its subsidiaries to other parts of the Group, by means of statutory or contractual transfers. This included the transfer of certain wholesale and international businesses to Lloyds Bank Corporate Markets and the transfer in May 2018 of SWG and other insurance subsidiaries to LBG. Due to LBG's UK retail and commercial focus, the vast majority of its business continues to be held by Lloyds Bank plc and its subsidiaries (together the ring-fenced bank).

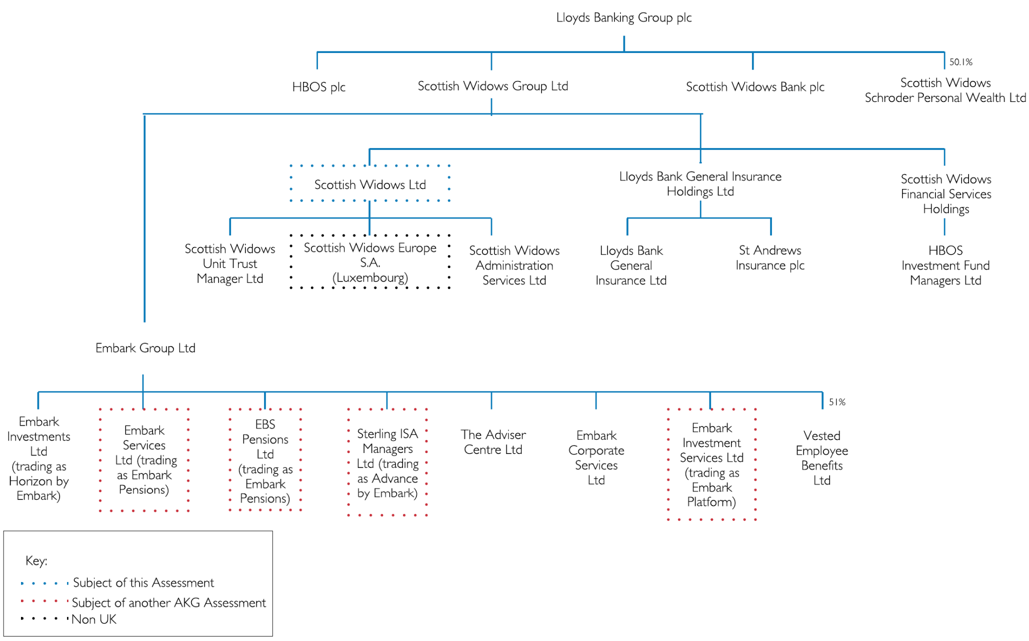
As part of its Brexit preparations, LBG formed a new Luxembourg based company: Scottish Widows Europe S.A. (SWE) SWE is a subsidiary of SWL and SWL's existing European business was transferred to SWE following regulatory approval via a Part VII transfer in March 2019.

In 2018, LBG terminated and settled its partnership agreements with Aberdeen Asset Management plc, a subsidiary of Standard Life Aberdeen plc (renamed as abrdn plc). In October 2018, LBG entered into new asset management agreements with BlackRock and Schroders plc. Scottish Widows was, however, subject to arbitration with abrdn regarding the termination of these agreements. As a result, abrdn continued to manage Scottish Widows' property and tracker funds until April 2022, with compensation paid to abrdn for loss of profit on the portion of assets that transfer before this time.

On 1 February 2022, LBG announced the completion of its acquisition of Embark Group Ltd (excluding Rowanmoor entities) to help realise, targeting a top-three position in direct-to-consumer self-directed and robo-advice business in the medium term, as well as a top-three position in the individual pensions and retirement drawdown market by 2025.

In October 2022, LBG announced it was taking a minority stake in Moneyhub, alongside Legal & General.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Scottish Widows Ltd

BASIC INFORMATION

Company Type
Life Insurer

Ownership & Control
Lloyds Banking Group plc

Year Established
1996

Country of Registration
UK

Head Office
Port Hamilton, 69 Morrison Street, Edinburgh EH3 8BW

Contact
www.scottishwidows.co.uk/contact-us/

Key Personnel

Role	Name
Lloyds Banking Group:	
Chair	R F Budenberg
Chief Executive Officer	C A Nunn
Chief Financial Officer	W L D Chalmers
CEO, Insurance, Pensions & Investments	A Lorenzo
Scottish Widows:	
Chair	S Wheway
General Insurance, Protection and Investments Director	C J Thornton
Pensions, Stockbroking & Distribution Director, and CEO Embark	J M Leiper
Retirement and Longstanding Director	E Watkins
Chief Operations Office Director	D MacKechnie
Customer and Business Risk Director	M Wilson
Finance Director	J C S Hillman
Chief Risk Officer	C Beale

Company Background

The Clerical, Medical & General Life Assurance Society was established in 1824 to cater for the insurance needs of the professionals of the day - the clergy and medics, subsequently broadening its target market to all types of professions and beyond this to a wider target market. At the end of 1996, the Society demutualised, becoming part of the Halifax, and its business was transferred into the newly formed Clerical Medical Investment Group Ltd (CMIG).

December 2009 saw CMIG recapture the annuity business previously reinsured to CMMF. This involved assets of £2bn and a loss of £112.2m. In January 2009, the company began accepting reinsured protection business from Scottish Widows plc. In July 2009, CMIG ceased writing new pensions business and in 2010 CMIG started to distribute the excess estate from its with profits fund. Ownership of CMIG, which became a direct subsidiary of SWplc in 2011, was transferred to Scottish Widows Group Ltd in advance of the business transfers in December 2015.

On 31 December 2015, the company became Scottish Widows' sole UK long term insurance company following the major simplification that took place. The business of SWplc, SWUF, SWA, PMSWF, HLL, SAL and CMMF was transferred into CMIG, which was renamed Scottish Widows Ltd (SWL). SWL was also reopened to new business. Historically a with profits company, recent new business has been written on a unit linked basis.

As part of its implementation of the ring-fencing requirements, Scottish Widows agreed to transfer ownership of a subsidiary undertaking, Scottish Widows Services Ltd (SWSL), a provider of service to the Insurance Group, to Lloyds Bank plc, a subsidiary of LBG. This disposal took place in May 2018. Costs recharged to the group from SWSL are incurred on an arm's length basis from the date of the disposal. In addition to the disposal of SWSL, the Group transferred its obligations relating to the Scottish Widows Retirement Benefit Scheme (SWRBS) to Lloyds Bank plc for consideration of £284m reflecting the value of the scheme liabilities.

SWL's existing European business was transferred to SWE following regulatory approval via a Part VII transfer in March 2019. SWE will remain a wholly owned subsidiary of SWL and so there is minimal impact on SWL as a result of the transfer of its European business to SWE. As part of the transfer process SWE has issued share capital to SWL sufficient for it to cover its relevant capital requirement and risk margin. The initial capital issued by SWE was £71m (€81m). Since then additional amounts of £27m (€30m) and £59m (€70m) have been issued in September and December 2019 respectively, with a further £27m issued in 2020.

Scottish Widows' principal activity is the undertaking of ordinary long-term insurance and savings business and associated investment activities in the United Kingdom. It also, now through SWE, writes a relatively small amount of business in Europe, principally in Germany. SWL offers a wide range of life insurance products such as annuities, pensions, whole life, term life and investment type products through independent financial advisors, the LBG network and direct sales. SWL also reinsures business with insurance entities external to itself and LBG.

In October 2017, Scottish Widows entered into an agreement to acquire the UK workplace pensions and savings business from the Zurich Insurance Group. The savings business was acquired by Scottish Widows Administration Services Ltd (SWAS) in April 2018. SWL acquired the pensions business via a Part VII transfer, with a net asset value of £6m, in July 2019. £7m of consideration was prepaid in 2018 and the remaining £9m was paid during 2019. In 2019 Scottish Widows recognised £10m of goodwill and £6m of acquired value in respect of the acquisition. SWAS has received capital injections totalling £165m from SWL to support this acquisition and to enable it to meet its regulatory capital requirement.

In April 2020, SWL completed the sale of its Halifax branded Child Trust Fund business to Forester Life Ltd.

OPERATIONS

Governance System and Structure

In the lead up to the introduction of Solvency II, the Insurance Group developed and implemented a comprehensive system of governance. Further enhancements were made in 2016, including the creation of the 'Longstanding Life, Protection and Investment' team to ensure continued focus and support for long-standing customers and the creation of a new Board committee, the 'Insurance People Committee', to challenge, support and influence the culture and values of SWG's employees and managers.

The Insurance Governance structure was also amended in 2017, in particular to reflect the changes to Executive committees resulting from the creation of the Insurance & Wealth Division (now IP&I) in September 2017. These changes do not represent a material change to the Insurance Group Risk Management Framework and System of Governance, although they do affect the operation of relevant Executive Committees.

As part of a review of remuneration governance, the divisional Remuneration Committee was disbanded in Q2 2018. A Master Trust Strategist Committee (MTSC) was established in Q3 2018 to be the Scheme Strategist, i.e. a person (or persons) responsible for making business decisions relating to the commercial activities of the Scottish Widows Master Trust (SWMT). Deriving its authority from SWL, MTSC has full responsibility for making business decisions in relation to the SWMT and for carrying out the role and responsibilities of the Scheme Strategist as set out in applicable law and the Pensions Regulator's draft Code of Practice No.15. SWL, LBGIL and StAI transitioned from the Senior Insurance Managers Regime to the Senior Managers and Certification Regime in December 2018, in line with regulatory requirements.

Changes were made to the system of governance in 2019 to include the Authorised Corporate Director Board changes, the setup of SWE and the election of SWAS to the Insurance Board in April 2020.

In 2020 the Group reviewed and updated the Terms of Reference of relevant Insurance committees to include the requirement for the committees to consider Climate Risk. LBG is committed to supporting the aims of the 2015 Paris Agreement, the UK Government's Net Zero target and Ten Point Plan for a Green Industrial Revolution, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

Scottish Widows has set goals to target a 50% reduction in the carbon intensity (across the investment portfolio of customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of LBG's sustainability strategy. Two new committees have been formed during 2021: the Insurance Sustainability Committee (a committee of the Board of Directors) and the Responsible Business Executive Committee.

The Insurance Group is governed by the Insurance Board, which has common membership, and meets concurrently with the Boards of the insurance entities within the Insurance Group (other than that of SWE) to discuss matters relating to the Insurance Group and the specific entities within it (including SWL, LBGIL and StAI).

The Insurance Board comprises 9 members, 2 of whom are Executive Directors and 7 of whom are Non-executive Directors. 6 of the Non-executive Directors are independent. The Insurance Board is collectively responsible for the long-term sustainable success of the Insurance Group. It sets the Insurance Group's strategy and oversees delivery against it, establishing the culture, values and standards and ensures that the Insurance Group manages its risk effectively, monitors reports appropriately, and has the necessary financial and human resources in place for the Insurance Group to meet its objectives.

The Insurance Board and the individual Insurance Company Boards are responsible for the governance and management of SWG and its three insurance subsidiaries and are supported by a number of executive committees.

The Chief Executive, Scottish Widows and Group Director, IP&I has executive responsibility for overall management of LBG's Insurance business and discharges his responsibility for the day-to-day management of the business through delegating elements of his authority to other Insurance executives and with the assistance of the Insurance & Wealth Executive Committee (IWEC), which is the principal executive management committee of the Insurance Group, and a series of subsidiary committees.

Risk Management

The approach to risk management aims to ensure that there is effective independent checking or oversight of key decisions through the operation of a three lines of defence model. The first line of defence is line management, who have direct accountability for risk decisions. The Risk function provides oversight and challenge and forms the second line of defence. Internal Audit constitutes the third line of defence, whose objective is to provide the required independent assurance to the Audit Committee and the Board that risks within the Insurance Group are recognised, monitored and managed within acceptable parameters.

The SWG/SWL business model aims to maximise the capital benefits from risk diversification available under Solvency II, with the life insurance Part VII Transfer Scheme undertaken on 31 December 2015 being a key part of this strategy. Overall, the Insurance Group has a well-diversified portfolio of risks arising from a wide variety of insurance and investment products, across both Life and Pensions and the General Insurance sectors.

The most significant risks across the Insurance Group are underwriting, market, liquidity and operational, together with a number of other material risks consisting primarily of the risks associated with the with profits funds. Within the underwriting and market risks the most significant risks include longevity, persistency, expenses, equity and credit risk on corporate bond and loan assets. The Group states a diversification benefit of 65% [2020: 63%] of undiversified SCR at the level of the Insurance Group as indicative of the diverse portfolio.

Reinsurance is primarily used to reduce insurance risk, in both life and general insurance businesses, especially longevity risk arising from bulk annuities. However, it is also sought for other reasons such as improving profitability, reducing capital requirements and obtaining technical support, and to offer investment fund links which Scottish Widows is unable to provide through other means. The Insurance Group's reinsurance strategy is to reduce the volatility of profits through the use of reinsurance whilst managing the insurance and credit risk within the constraints of the risk appetite limits.

A key component of Risk Appetite is the requirement to hold a Capital Buffer in excess of the regulatory SCR. The buffer methodology used for SWL was reviewed and amended in 2021. The new framework differentiates between the target buffer (the level of capital SWL aims to hold) and the buffer risk appetite (the level below which risk appetite is considered Amber, and where SWL would consider taking management actions). There is a clear Group policy to return surplus capital to LBG.

LBG and SWG have instigated several initiatives to evaluate the lessons learnt from the processes implemented during the pandemic, including a Group-led review of governance structures; lessons learnt from the invoking of the Insurance Financial Stability Group; and the adoption of the 'risk surgery' approach, established to review all proposed temporary controls/process amendments to ensure these were made in a manner which is both controlled and fair to customers. The approach was adapted to a 'Business as Usual' model in August 2020.

A Group-wide non-financial risk review was also undertaken to assess, with the benefit of hindsight, how well the risks were managed given the impact of COVID-19. There were no 'High' findings for Insurance, but an Insurance Working Group has been established to review the other minor findings and consider additional steps to safeguard the business and ensure the business continues to appropriately support customers through the crisis.

Climate Risk has been integrated into the Insurance Group's existing risk management framework following consideration of how the effects of Climate Change may impact both the risk profile and business model, by:

- Embedding new, or developing existing processes and policies for the identification and management of climate-related risk
- Adding Climate Risk to both the Group and the Insurance Enterprise Risk Management (ERM) Framework as a Primary Risk
- Reflecting the impact of Climate Risk as a risk driver on all other risks within the ERM Framework
- Creating a Climate Risk Policy that provides an overarching framework and principles and requirements for the management of climate risks across the Insurance Group
- Adding Climate Risk to the Risk Appetite Framework with Board level Risk Appetite Statements

Administration

Scottish Widows has four main customer facing business units that service different consumer needs:

- Long-standing products: Serviced by Diligenta under a long-term strategic partnership
- Workplace: Workplace Savings schemes
- Retirements: Retirement Account and Annuities, and an 'at retirement' guidance service for existing D2C customers
- Protection: Life and Critical Illness cover for personal and business customers

On 19 September 2017, Scottish Widows entered into a long-term strategic partnership with Diligenta, to deliver policy administration for customers with long-standing products. This includes improvements in digital capabilities with the aim that, over time, customers with long-standing products can manage their policies in a simpler and more efficient way and that changing needs can be better met. The service improvement activity under the contract has delivered to plan the 3 life and pensions system data migrations scheduled in 2019 and 2020, with further life and pensions system data migrations planned through to 2022. During 2021, the continuing service improvement programme delivery included provision of an Integrated Drawdown capability for previously migrated pension customers, giving better options at retirement and making the process of taking tax free cash significantly simpler.

As a result of this outsourcing partnership, in the region of 1,000 roles whose work is transferring were TUPE transferred to Diligenta on 1 March 2018. Scottish Widows expects to realise benefits through savings through the reduction of ongoing costs, across both insurance and investment products.

In 2020 SWAS and SWL agreed to migrate SWL legacy policies onto the Corporate Savings Platform (CSP). SWAS has continued to deliver integration and configuration services to SWL in respect of workplace pensions business to be migrated from SWL systems onto the CSP. It has agreed a revised contractual basis with SWL for charging for these services. SWAS entered into a new contractual relationship with the supplier of the CSP, FNZ. This will result in additional systems build by FNZ and SWAS over the next three years, allowing CSP capability to be expanded to administer workplace savings business written by SWL. Scottish Widows has undertaken the initial migration of over 5,000 workplace schemes to the CSP with a further migration due in Q1 2023 and the full programme to be completed in 2023. This will upgrade the workplace savings business in SWL to a new platform, provided by FNZ, to support future growth of the business.

Benchmarks

Scottish Widows was awarded Best Personal Pension Provider at the 2022 Investment Life & Pensions Moneyfacts Awards.

Scottish Widows achieved 5 stars for the seventh consecutive year in the 2022 Financial Adviser Service Awards in Investments, and Pensions and Protection. In 2020 Scottish Widows received the Editor's Achievement Award for 30 years' Consistent Service. It had previously been named as Company of the Year' in 2017.

Scottish Widows was awarded Best Retirement Provider and Best Financial Education Initiative at the 2020 Money Marketing Awards.

In 2016 it had won in addition the 'Most Improved' Life & Pensions Provider and was the M&A Awards winner of the Best UK Corporate Pension Provider.

It also won Benefit Communications Innovation of the Year at the 2017 Workplace Savings and Benefits Awards, Advertising Campaign of the Year in the 2017 Money Marketing Awards and in the 2017 Pension Age Awards it was Pensions Provider of the Year.

Product awards include a range of five star and gold accolades from Defaqto, FTRC and Moneyfacts in recent years.

Scottish Widows is also named as Pension Firm of the Year in the 2019 FDs' Excellence Awards.

Scottish Widows measures itself against 3 non-financial key performance indicators as follows:

- Customer satisfaction (net promoter score): 44 in 2021 [2020: 45, 2019: 43, 2018: 39; 2017: 39]
- Customer complaints (FCA reportable complaints per 1,000 policies): 1.83 in 2021 [2020: 1.21, 2019: 0.97, 2018: 0.85; 2017: 0.81]
- Colleague engagement index (% favourable): 65 in 2021 [2020: 75, 2019: 69, 2018: 70; 2017: 61]

The increase in customer complaints in 2021 was attributed to a backlog of incoming cases carried over from 2020, and service delays and system migrations within the company's outsourcers. Scottish Widows states that improvements were seen in the last quarter of 2021, and recovery plans with outsourcers are in place for completion in 2022.

Outsourcing
Scottish Widows operates a number of outsourcing arrangements. These include Concentrix for the back-office administration of Scottish Widows and ex-Halifax (investments) products. Bulk Annuity administration is outsourced to Mercer.

A key recent development, not without its challenge, has been the change in investment management outsourcing from abrdn to Schroders and BlackRock for active and passive mandates respectively. The transition was managed in tranches and represented a significant project in 2019, continuing until completion in 2022.

Additionally, there is the outsourcing partnership with Diligenta and the Corporate Savings Platform supplied by FNZ.

STRATEGY

Market Positioning
LBG's IP&I division offers insurance, investment and wealth management products and services, supporting over ten million customers with the division's strategic aim of 'becoming Britain's preferred financial partner for pensions and financial planning, helping to rebuild households' financial health and wellbeing, and meeting more of the Lloyds Banking Group customers' financial needs, increasingly with carbon neutral investments'.

For Life and Pensions the strategy is focussed on four core markets: Protection, Pensions, Retirement and Annuities, where Scottish Widows sees the opportunity to participate in and influence the transition to a low carbon economy for the long-term benefit of customers and society.

The aim of the strategy is to transform Scottish Widows into a digitised, simple, low risk, customer focused, UK financial services provider.

Scottish Widows states that its Insurance Strategy will 'create a scalable and efficient business and deliver value for money propositions for our customers that are aligned to clear and growing customer needs'. There are three core components to this strategy:

- Delivering a leading customer experience
- Digitising the Group
- Maximising the Group's capabilities

Initiatives and achievements in 2021 which support the delivery of the strategy include:

- Agreed the acquisition of Embark which was completed on 31 January 2022 and includes a platform which will support future growth of the pension and investment business within the Group, including the re-platforming of an existing proposition
- Progressed the Group's vision to be the preferred financial partner for personal customers, with over £7bn net new money in Insurance and Wealth open book AuA over the period (£133bn as at 31 December 2021). Total AuA increased by 12 per cent over the period to £193bn (excluding the contribution of Embark)
- Continued to 'Help Britain Recover' and transition to a low carbon economy with the completion of around £0.8bn of loan investments within the Group, including the first Sustainability Linked Loan in the social housing sector
- Launched the 'Find Your Impact' feature into the Scottish Widows app; allowing pension scheme members to see the environmental, social and governance impact of their pension investments
- Continued to collaborate across LBG, with Commercial Banking relationships contributing to increased Workplace Pensions market share (estimated at 19%)
- Continued modernisation of the Group's technology architecture, with over 35 million views of insurance products in the Group's advanced Single Customer View proposition in December 2021, up from 17 million in December 2020
- For the sixth consecutive year Scottish Widows was awarded 5 stars in the Financial Adviser Service Awards across Pension and Protection and Investments

LBG is committed to supporting the aims of the 2015 Paris Agreement, the UK Government's Net Zero target and Ten Point Plan for a Green Industrial Revolution, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

As part of LBG, the Insurance Group has published a climate plan that sets out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, formulated in a manner that prioritises customer goals within decision-making.

Having previously invested to support long term participation choices, technology simplification and growth in digital capability, Scottish Widows is now turning its focus towards more integrated customer relationships.

Proposition

Scottish Widows supports its broad market position and opportunities afforded by its Group role with a wide range of life insurance products such as annuities, pensions, whole life, term life and investment type products through independent financial advisors, the LBG-network and direct sales.

In Protection, SWL continues to rebuild direct relationships through a multi-channel, multi-brand engagement model and build scale within the intermediary channel. Specific recent emphasis has been on implementing a new digital protection platform and underwriting engine. The launch of a strategic platform in 2023 will support the ability to continue to grow in a competitive market.

In Pensions, SWL continues to increase capacity to build an efficient business of scale that serves its growing customer base, providing a better employer experience and improving member engagement whilst also building on banking relationships to selectively win new schemes in target segments. The acquisition from Zurich is a significant factor here, bringing additional scale and capability. Further, the acquisition of Embark is crucial to Scottish Widows' on-platform Intermediary and Retail D2C ambitions. Individual propositions are set play a major role in the ambition to become the preferred financial partner for customers.

Retirement is an area where SWL sees a unique opportunity to benefit from being part of the wider LBG. It continues to invest in the Retirement Account proposition to further build on its existing presence and to offer 'simple, value-for-money products'. Retirement Account business development is being refocused on mainstream financial advisers with a balance of field presence and telephony support. More work is also being done on the development of direct distributions capability within LBG for pensions/retirement business.

The offering includes an Enhanced Annuity and a Standard Annuity which was launched in 2019 and the business indicates that it has appetite for further growth in this product type. Further, in Bulk Annuities, SWL has competed successfully for varying sizes of schemes. It expects to grow market share whilst building on wider LBG experience in asset origination. SWL built significant bulk annuity capability during 2015, leveraging wider LBG experience in asset origination, and launched its proposition later that year. It has subsequently announced a number of deals, including £1.5bn from 3 pensioner buy-ins by the ICI Pension Fund. Scottish Widows is also able to utilise LBG's existing Commercial Bank relationships with employers in this area.

In May 2016 Scottish Widows announced the launch of its Premier Pension Portfolio Funds, a range of risk-based multi-asset funds available to both group and individual pension customers. The Corporate Pensions proposition consists of the auto enrolment scheme and associated services as well as the MyMoneyWorks proposition.

Scottish Widows makes a number of e-business tools available via its adviser extranet to support advisers with planning processes and customer engagement across its Protect, Retirement, Investment, Corporate Pension, Bond and Mortgage product areas. There is also an eServices learning centre for advisers, and a self-serve pension transfer facility. The service is designed to allow corporate pension customers to transfer their pension pots on a secure website via a three-step process.

Scottish Widows continues to offer a wide range of funds from ready-made/governed investment portfolios to specialist funds, the aim being to meet a differing range of investment needs.

In September 2019, Scottish Widows received authorisation (by The Pensions Regulator) of the Scottish Widows Master Trust. This now sits alongside the range of choices for workplace and individual customer needs.

Significant propositional work also remains underway as part of the extensive longstanding customers programme. This has included reduction in product charges and current developments such as the implementation of drawdown capability in 2021 for this existing customer segment.

The acquisition of Embark unlocks an opportunity in the IP&I market to obtain above market growth and enables proposition transformation. The combination of Scottish Widows and Embark enables a full service proposition to be taken to market and the opportunity to leverage a channel led strategy that meets distinct segment needs.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2021

Assets

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Fixed interest	14,883	16,230	14,797
Equities	0	0	0
Collectives	14,827	13,761	13,262
Property	17	16	15
Linked	87,507	95,021	118,372
Derivatives	3,877	5,099	2,682
Loans and mortgages	8,653	9,433	9,230
Reinsurance recoverables	22,938	19,587	12,364
Cash	621	919	798
Other	2,846	2,676	2,684
Total Assets	156,170	162,743	174,205

Liabilities

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	129	79	81
Technical provisions - life	32,083	33,540	31,062
Technical provisions - linked	108,776	113,377	129,460
Other	7,301	9,004	6,718
Total Liabilities	148,289	156,001	167,321
Excess of assets over liabilities	7,881	6,743	6,885

Funds under management increased to £174bn in 2021 reflecting a net inflow and positive investment returns [2020: £160bn].

Linked assets remained the most dominant, accounting for 68% [2020: 58%] of the total. Collectives at 8% [2020: 8%] remained significant, with fixed interest assets 8% [2020: 10%] of total. Remaining assets include mortgage loans of £9.2bn [2020: £9.4bn], or 5% [2020: 6%] of the total, reflecting the annuity portfolio - a core part of the invested asset portfolio which backs the annuity business is invested in loan assets. These have predominantly been purchased from LBG although SWL has also started originating new business.

Reinsurance recoverables accounted for 7% of total assets [2020: 12%]. Reinsurance is primarily used to reduce life insurance risk and also for improving profitability, reducing capital requirements and used to offer some of its investment fund links.

There is ongoing litigation concerning policies issued by CMIG (now SWL) sold by independent intermediaries in Germany in the late 1990s-early 2000s with a German industry-wide issue regarding notification of contractual 'cooling off' periods leading to continued claims in 2021. Complaint volumes continued to decline during 2021. The total provision made to 31 December 2021 was £696m [2020: £674m]. Utilisation increased to £29m [2020: £28m]. The remaining unutilised provision as at 31 December 2021 was £84m [2020: £91m]. Since the creation of SWE in 2019 this provision has been split across SWL and SWE in line with the proportion of the European business that was transferred to SWE. In 2021 the split was £24m and £60m respectively [2020: £21m and £70m]. SWL has provided a 90% indemnity to SWE for future provision increases in respect of customer claims and expenses in relation to insurance business in Germany.

Life & Health SLT Technical Provisions

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Insurance with profit participation	11,263	10,498	9,985
Linked insurance	108,776	113,377	129,460
Other life insurance	18,635	20,915	19,069
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	129	79	81
Health reinsurance	0	0	0
Life reinsurance	2,185	2,127	2,008
Total life & health SLT technical provisions	140,987	146,996	160,603

Life Expenses

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Health insurance	1	1	1
Insurance with profit participation	58	22	32
Linked insurance	655	615	683
Other life insurance	279	226	452
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	3	3	4
Other expenses	115	73	72
Total life expenses	1,111	939	1,243

SWL has written a mix of linked, non-profit and with profits business. In terms of technical provisions, linked business is the most significant representing 81% [2020: 77%] of the total. There remains a declining proportion of, mostly historic, with profits business, which represents 6% [2020: 7%] of the total, the balance being non profit business, which is mostly categorised as 'Other life insurance'.

Solvency Capital Requirement (SCR)

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Market risk	3,410	3,643	3,237
Counterparty default risk	722	521	297
Life underwriting risk	3,913	4,080	3,982
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(4,334)	(4,290)	(4,212)
Intangible asset risk	0	0	0
Operational risk	2,066	1,828	1,818
Capital add-ons already set	0	0	0
Other items	(614)	(556)	(809)
Solvency capital requirement	5,162	5,226	4,314

Eligible Own Funds

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Tier 1 unrestricted	6,020	5,667	5,259
Tier 1 restricted	0	0	0
Tier 2	1,704	1,767	1,671
Tier 3	0	0	0
Eligible own funds to meet SCR	7,724	7,434	6,930
Excess of own funds over SCR	2,562	2,208	2,616
SCR coverage ratio (%)	149.6	142.3	160.6

SWG has permission from the PRA to publish a single SFCR covering the Insurance Group, although SWE produces its own version. Scottish Widows uses an Internal Model to calculate the SCR for both SWG and for SWL.

SWL's shareholder-owned fund may need to support the with profits funds in the event that the funds are unable to meet claim payouts in adverse scenarios. This is referred to as 'burnthrough' and an allowance for this cost is reflected in the calculation of SWL's own funds (shareholder-owned). Burnthrough costs are also stressed in calculating SWL's SCR, leading to an additional risk margin of £117m in 2021 [2020: £62m]. The burnthrough SCR increased by £55m as a result of a reduction in the value of the With-Profits Fund estate which now has a reduced capacity to absorb losses, resulting in an increased risk of excess losses being borne by the shareholder following a 1-in-200 year event.

The TMTP deduction was recalculated in 2021 and reduced by £9m [2020: £122m reduction], from £1,468m to £1,459m, due to annual run-off largely offset by the recalculation on the 31 December 2021. The recalculation led to an increase in the TMTP deduction primarily due to allowing for the LIBOR to SONIA transition and a narrowing of credit spreads since last recalculated. Working capital excludes the part of the TMTP deduction in the With-Profits funds, which was £122m at 31 December 2021.

Technical provisions increased by £133m on 1 January 2022 [1 January 2021: £112m] and working capital reduced by a similar amount, due to the effect of the annual run-off of the TMTP deduction. The solvency coverage ratio for SWL decreased by 3%. Similarly, the impact for SWG was a reduction in the solvency coverage ratio of 3%.

The most significant risks across the Insurance Group are underwriting risk, market risk, liquidity risk and operational risk. Other material risks include the risks associated with the With-Profits Funds. Within the underwriting and market risks the most significant risks include longevity, persistency, expenses, equity and credit risk on corporate bond and loan assets. Other material risks include the risks associated with the with profits funds. The Group states a diversification benefit of 65% [2020: 63%] of undiversified SCR at the level of the Insurance Group as indicative of the diverse portfolio.

For SWL the net diversified SCR decreased by £912m in 2021 to £4,314m [2020: £5,226m]. Movements included:

- An increase of £185m due to writing new annuity and unit-linked business
- A decrease of £472m due to material miscellaneous items, including £310m from an increase in LACDT over the year, primarily driven by an increase in the deferred tax rate and market volatility
- A decrease of £269m due to in-force annuity and unit-linked business running off
- A decrease of £236m due to market variances
- A decrease of £120m from revised risk calibrations and assumptions at the end of 2021 (compared to those made at the start of 2021), including the impact of transitioning from a LIBOR to SONIA based risk-free rate term structure

Gross Life Premiums Written By Line of Business

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Health insurance	11	10	9
Insurance with profit participation	8	51	41
Linked insurance	9,266	10,374	13,119
Other life insurance	2,900	1,819	988
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	1,630	68	61
Total gross life premiums written	13,817	12,322	14,220

Gross Life Premiums Written By Country

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Home country	13,803	12,322	14,220
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	14	0	0
Total gross life premiums written	13,817	12,322	14,220

All new business was written into SWL with effect from 1 January 2016. Almost all gross premiums written related to the UK, with very small amounts written in Europe (namely Luxembourg, Germany, Italy, the Netherlands, Isle of Man and Jersey) now transferred to SWE and Hong Kong, all a result of historic legacy business and not material to the current strategy. The European business is now written into SWE.

Out of the total premiums reported under IFRS in 2021, 64% [2020: 62%] were regular premiums, with the balance being single premium business. The most significant product lines were corporate pensions - 67% of gross premiums [2020: 59%] and the Scottish Widows Retirement Account - 14% [2020: 11%].

Life and pensions sales (PVNBP) for the year increased by 19% to £17.3bn [2020: £14.5bn], with year on year increases across all propositions with the exception of Bulk Annuities, which were impacted by reduced activity in the market. Workplace pensions and Protection sales increased by 30% and 42% respectively.

Profit

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Profit (loss) before taxation	(84)	(271)	(3)
Taxation	63	75	(5)
Profit (loss) after taxation	(21)	(196)	(8)
Other comprehensive income	0	0	(9)
Dividends	(300)	(560)	(200)
Retained profit (loss)	(321)	(756)	(217)

Life Business Flows

	Dec 19 £m	Dec 20 £m	Dec 21 £m
Net life premiums earned	11,983	14,174	19,287
Net life claims incurred	(10,201)	(9,380)	(8,869)
Net flow of business	1,782	4,794	10,418

SWL reported a consolidated loss after tax of £8m in 2021 [2020: £164m, loss restated]. This consists of a shareholder loss before tax of £3m [2020: loss before tax of £232m] and a tax charge of £5m [2020: taxation credit of £68m]. The result is reflective of interest rate movements and changes in demographic assumptions including a reduction of prudent margins during the year. SWL paid dividends of £200m in 2021 [2020: £560m].

SWL's results are reported as part of LBG's IP&I (previously known as the Insurance and Wealth division). LBG reported that the division's underlying profit increased by 26% to £427m [2020: £338m], despite the £91m regulatory fine in the first half of 2021.

With net premiums increasing and net claims reducing, there was an increased net inflow of £10.4bn [2020: £4.8bn].

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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