ISSUED 06 January 2025

PROVIDER SECTOR

Scottish Widows

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd

Accessible • Comparative • Independent

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 £157bn of funds under management
- SWL represents a key diversified revenue stream for the group and is positioned as a key engine of growth
- The purchase of the Zurich workplace business was demonstrative of a growth and development focus in key customer areas and was completed in July 2019, with Scottish Widows reporting a top two position in the large scheme market
- The acquisition of Embark, completed in 2022, was positioned to enable the delivery of what the business sees as a market-leading, digitally enabled investment offering including for direct customers seen through the launch of 'ready-made' pension and investment products in 2023
- Embark technology enables the reinvigoration and enhancement of Scottish Widows' intermediary proposition seen through the launch of the rebranded Scottish Widows Platform
- The acquisition of Cavendish Online, completed in December 2022, is part of a goal to become a top-three protection provider by 2025 with the launch of a new strategic platform and new income protection product further evidence of this
- 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 well more recent enhancements to the Scottish Widows app
- 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
- Chirantan Barua was appointed CEO, Scottish Widows and IP&I in May 2023

COMMENTARY

Financial Strength Ratings

At 31 December 2023, LBG reported a reduced CET1 capital ratio of 14.6% [2022: 15.1%]. The pro forma CET1 capital ratio at this date, reflecting the dividend paid up by the Insurance business in the subsequent quarter and the full impact of the declared share buyback was 13.7% [2022: 14.1%]. 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 is now around 12% (previously 12.5%), plus a management buffer of around 1%.

At the same date, Scottish Widows Group Ltd's (SWG) 'shareholder view' solvency ratio was 184% [2022: 163%]. The equivalent regulatory view of the solvency ratio (including With Profits funds and post-dividend) was 167% [2022: 152%].

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 acquisitions of Embark and Cavendish Online. 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 4% [2022: 5%] of the total reserves (£7.0bn out of a total of £156.8bn). 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.

On a Solvency II basis, SWL disclosed an SCR Coverage Ratio of 160.2% at the end of 2023, based on Own Funds of £5.5bn (after excluding £1.7bn Own Funds in the ring-fenced with profits funds) and an SCR of £3.4bn [2022: 175.4% SCR Coverage Ratio, £5.9bn Own Funds (excluding £1.3bn), £3.3bn 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 55% [2022: 65%].

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 2023, SWL had liquidity coverage of 135% [2022: 109%]. During 2023 there was an increase in the company's excess liquidity position with a corresponding increase in the liquidity coverage. This was primarily driven by a methodology change to include the £750m revolving credit facility with Lloyds Bank as available liquidity and liquidity generation from Unit Matching, offset by dividends paid in the year.

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 were put in place to transform the service experience for employers, advisers and members.

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 improved and the business regained its positive service position. With ongoing initiatives to ensure this service level is maintained, whilst allowing customers to contact Scottish Widows through their channel of choice.

The Customer Satisfaction (Trustpilot) for Scottish Widows increased to 3.0 in 2023 [2022: 1.2]. To continue the recovery of the customer service proposition, investments were made in staffing, as well as in Scottish Widows' digital capability, allowing more customers to self-serve through the customer service channel of their choice, which has resulted in improvements in the Trustpilot rating. As at November 2024, the score had increased further to 4.3.

Customer complaints (FCA reportable complaints per 1,000 policies) increased to 2.5 in 2023 [2022: 2.0]. The increase in customer complaints in 2023 was driven by surges in demand due to the volatile and uncertain economic environment, alongside attrition and challenging recruitment conditions.

The NPS across LBG as a whole increased to 68.2 as at December 2023 [2022: 67.4], remaining at a good level.

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

As part of LBG's purpose, the aim is to 'create a more sustainable and inclusive future for people and businesses, shaping finance as a force for good'. SWG has a major role to play in this by:

> *Supporting the financial health and wellbeing of our customers through propositions which provide immediate financial resilience such as Protection, and those such as Pensions and Investments which help prepare for the future*
>
> *Helping businesses to recover and thrive, including by de-risking their pensions liabilities*
>
> *Investing our policyholder and shareholder assets in ways which enable a green recovery, generate an appropriate return and help to build an inclusive society*

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'.

IP&I offers Insurance, Pensions and Investments offers insurance, investment and pension management products and services, 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, with the latter reflected in the 2022 launch of their climate action plan. In General Insurance the focus remains on being customer centric and leveraging the advantage of being part of LBG plc.

2023 was described as a year of significant change, with a refreshed management team and a refocused strategy, supported by the group's investment in the development of the business, including the investment propositions to support the group's mass affluent strategy, and innovating intermediary propositions through the Embark and Cavendish Online acquisitions and accelerating the transition to a low carbon economy.

Specifically, progress against strategic priorities for the IP&I business unit of LBG in 2023 included the following:

- Workplace pensions business saw a 9% annual increase in regular contributions to pensions administered, with £4.9bn net AuA flows in the period, contributing to 18% AuA growth
- £4.2bn invested in climate-aware investment strategies through Scottish Widows over the period. Cumulatively £21.7bn invested, on track to meet the target of between £20bn and £25bn invested by 2025
- Migrated c.1m policies and c.£36bn AuA to strategic platforms and decommissioned 19 legacy applications
- Supported 13,000 customers to secure a guaranteed income for life, issuing £1bn of annuity policies, growing from 9,000 customers and £568m in 2022. Increased market share from 15.6% in 2022 to 20.1%
- Continued progress in its protection offering, with the integration of Cavendish Online into the wider Scottish Widows Group, and protecting over 20,000 families through LBG's direct channels

Almost a decade on from pension freedoms, opportunities for a recognised customer brand in the retirement market are clear and Scottish Widows is well 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 provided access to the growing individual platform market, as well as the technology to deliver 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 discussions which informs the future direction of the Life & Pensions industry.

2024 sees Scottish Widows refresh its brand identity to make it stand out more in digital channels, replacing the widow model with a digital widow logo, with an ambition is to double its 1m already digitally registered customers by end 2024.

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.

At a wider strategic level the partnership LBG 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.

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

Business Performance Rating

SWL reported a consolidated loss after tax of £85m in 2023 [2022 restated: £1,389m loss], consisting of a shareholder loss before tax of £150m [2022 restated: £1,876m, including a loss of £1,238m driven by contract modifications] offset by a tax credit of £65m [2022 restated: tax credit of £487m]. The result reflected market movements. SWL paid dividends of £100m [2022: £600m].

SWL saw life and pensions sales (PVNBP) reduce by 10% to £14.5bn [2022: £16.0bn], with interest rate changes resulting in higher discounting applied in 2023, partially offset by strong performance in the Annuities business. Additionally, £2.9bn PVNBP was contributed by Embark in 2023 [2022: 3.0bn].

SWG received dividends totalling £285m [2022: £600m] from its subsidiaries in 2023 and paid dividends of £191m [2022: £654m] to LBG, in accordance with its risk appetite policy.

The IP&I division reported an increase in underlying profit before tax to £190m in 2023 [2022 restated: £62m loss].

IP&I contributed 2% [2022: negative 1%] of LBG's underlying profit in 2023, with Retail contributing 52% [2022: 64%], Commercial Banking 41% [2022: 26%] and Equity Investments and Central Items 5% [2022: 10%].

LBG's statutory profit after tax increased by 41% to £5.5bn [2022 restated: £3.9bn], with the increase on the prior year materially driven by the restatement of earnings for the IFRS 17 accounting change in 2022. In addition, 2023 benefited from higher net income and a significantly lower impairment charge, partly offset by increased operating expenses as expected.

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 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: Retail, Commercial 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 £213bn, with SWL accounting for £157bn of this, and annualised annuity payments of over £1.2bn. 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.

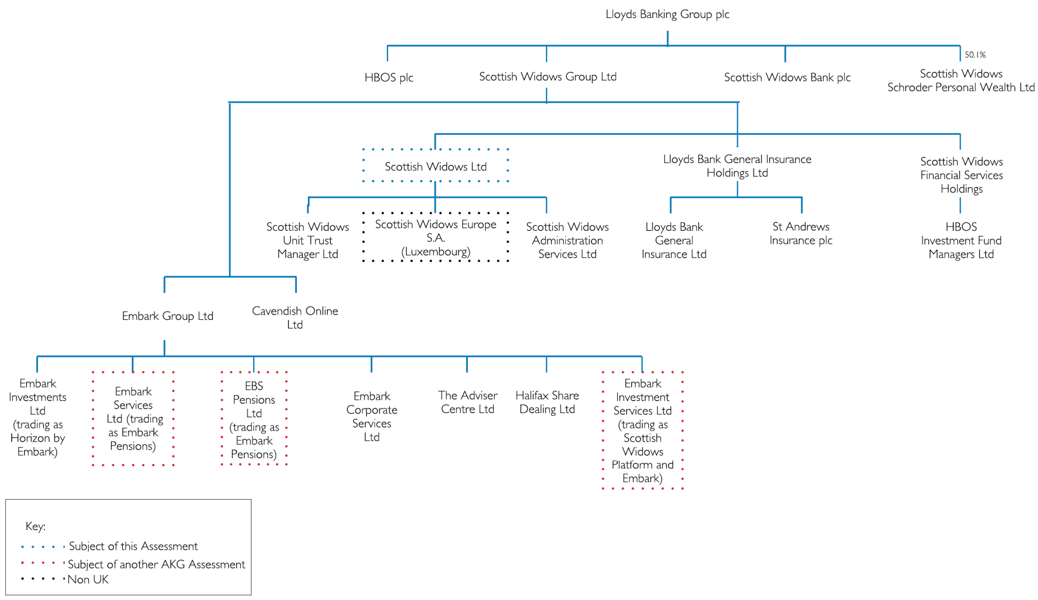
In February 2022, LBG announced the completion of its acquisition of Embark Group Ltd (excluding Rowanmoor entities) to help its future aim of achieving a top-three position in the individual pensions and investment market.

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

In December 2022, LBG announced the completion of its acquisition of Cavendish Online Ltd, a leading UK protection business which offers hybrid direct to consumer, guided and advised life insurance, critical illness and income protection services.

In February 2023, LBG acquired the low emission vehicle leasing company TuskerDirect Ltd.

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, Scottish Widows and Insurance, Pensions & Investments	C Barua
Scottish Widows:	
Chair	J S Wheway
Chief Customer Officer	J M Leiper
Chief Information Officer	A Thawani
Chief Investment Officer	K Doran
Chief Operations Officer	D MacKechnie
Strategy Director	M Preston
Workplace & Intermediary Wealth Director	G Bold
Retirement & Longstanding Director	E J Watkins
Protection Director	R St Louis
General Insurance Director	J Ward
Finance Director	S T Nyahasha
Interim Chief Risk Officer	L Johnston
Chief Actuary	M R Downie

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 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 SWG 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 remains 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 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.

In March 2024, Scottish Widows entered into a Business Transfer Agreement ('BTA') with Rothesay Life plc for the sale of its £6bn bulk annuity business via a Part VII transfer, expected to take place in 2025. Ahead of this, a Reinsurance Agreement with Rothesay was implemented in May 2024 (backdated to 1 January 2024), so that Scottish Widows fully de-risked its bulk annuity portfolio.

OPERATIONS

Governance System and Structure

The Insurance Group is governed by the Insurance Board. As part of the Insurance Group's governance arrangements, there are a number of other composite, subsidiary boards for other statutory entities which do not form part of the Insurance Board. The main UK subsidiary Boards within the Insurance Group are the Authorised Corporate Director (ACD) Board, the GI Broker Board and the Embark Group Board. The legal entities which form the Insurance Board have common membership and meet concurrently to discuss matters relating to those entities which include SWL, LBGIL and StAI and the wider Insurance Group. The Scottish Widows Europe Board covers SWE, which is regulated by the Luxembourg regulators and is covered by a separate SFCR report.

The Insurance Board is the Insurance Group's ultimate authorisation body in respect of matters which concern the operation of the Insurance Group, recognising, however, that the ACD Board and the GI Broker Board are stand-alone composite boards and ultimate decision making body in relation to all matters within the control of the ACD and GI Broker entities respectively.

The Insurance Board comprises eleven members, being the Chair, two Executive Directors and eight Non-executive Directors. Six of the Non-executive Directors are independent, including the Senior Independent Director (also Chair of the Insurance Audit Committee, With Profits Committee and Insurance People Committee) and the Chairs of the Risk Oversight Committee and Board Investment Committee. The Board Chair was independent on appointment.

The Insurance Board is collectively responsible for the long-term success of the Insurance Group. It sets the Insurance Group's strategy and oversees delivery against it, establishing the culture, values and standards. It also ensures It also 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.

In order to support its work, the Insurance Board has established a number of committees, which carry out their tasks in support of the Board. These include:

- Insurance People Committee
- Insurance Risk Oversight Committee
- Insurance With-Profits Committee
- Insurance Audit Committee
- Insurance Board Investment Committee
- Independent Governance Committee
- Insurance General Purposes Committee

The Chief Executive of Scottish Widows (CEO, IP&I) has executive responsibility for overall management of LBG's insurance business and discharges responsibilities for the day-to-day management of the business with the assistance of Executives who have been delegated elements of authority and through the operation of the Executive Committee (IPIEC) and other executive level committees. IPIEC is the principal executive management committee of the Insurance Group, and is supported by a series of subsidiary committees.

The Embark Group was acquired by Scottish Widows Group in Q1 2022 and has become more integrated over time, forming part of the Insurance Board since September 2024. Cavendish Online was acquired in Q4 2022 and is a subsidiary of Lloyds Banking Insurance Services Ltd, which is in turn a subsidiary of one of the Insurance Board entities (Lloyds Bank General Insurance Holdings Ltd).

Following the LBG structure changes which came into force in July 2022, the 'Wealth' element of the Insurance & Wealth Division moved elsewhere in the wider LBG and the Division was renamed the Insurance, Pensions & Investments. The changes also introduced a new platform team approach which has resulted in a revised remit and name for the former Change, Strategy and Execution Committee, with other changes implemented at lower internal governance level within individual business areas.

Chirantan Barua was appointed CEO, Scottish Widows and IP&I in May 2023.

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.

The Insurance Group is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations, and aligned to best practice outlined by the Climate Financial Risk Forum (CFRF).

Risk Management
The business model aims to maximise the capital benefits from risk diversification available under Solvency II. 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 risk, market risk, liquidity risk and operational risk. Within the underwriting and market risks, the most significant risks include; longevity, persistency, expenses 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 68% [2022: 66%] of undiversified SCR at the level of the Insurance Group as indicative of the diverse portfolio.

Reinsurance is primarily used to reduce underwriting risk, in both life and general insurance businesses. In addition, reinsurance is also used to offer Investment Fund Links which SWL 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 counterparty credit risk within the constraints of the risk appetite limits.

When considering the Insurance Group's solvency position, an important metric is the capital buffer held above regulatory capital requirements. The level of buffer held is monitored in risk appetite, with thresholds set below the target buffer level. Should the capital position fall below the Risk Appetite Metric's thresholds, specified management actions would be considered to improve the capital position. There is a clear group policy to return surplus capital to LBG.

Climate Risk has been integrated into the group's existing risk management framework, both as a principal risk on its own, as well as integration into other materially impacted principal risks.

The Insurance Group uses an internal model to calculate its SCR. The Internal Model Change Policy was also reviewed in 2023. The key changes were revision of the de minimis threshold for model changes and, reflecting prior PRA feedback, a shift in the boundary of the Internal Model for the purpose of reporting changes. The updated policy has been discussed with the PRA and has been approved by the Insurance Board in advance of submission to the PRA.

Administration
Scottish Widows has the following main customer facing business units that service different consumer needs:

- Retirement & Long-standing: Annuities and 'at retirement' guidance service for existing D2C customers. Longstanding customers serviced by Diligenta under a long-term strategic partnership
- Accumulation: Workplace and Intermediary pensions. Latter includes Scottish Widows Platform and Retirement Account
- Protection: Life and Critical Illness cover for personal and business customers. Also now offering Income Protection

These are supported by Strategy, Technology, Operations and Investment functions as well as a Customer Office that designs, develops and delivers digital journeys for tools for customers.

One of Scottish Widows main focuses over the last few years has been to simplify and modernise its digital estate for the benefit of customers.

In 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 completed during 2022 and further migration events in 2024. 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.

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 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 resulted 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 undertook the initial migration of over 5,000 workplace schemes to the CSP with further migration and the full programme completed in 2023. This has upgraded the workplace savings business in SWL to a new platform, provided by FNZ, to support future growth of the business.

The 2022 acquisition of Embark, resulted in the rebranded launch of the SW Platform and the simplification of the tech stack for individual advisers and customers, with the migration from and closure of the Advance by Embark platform.

As of 2024, Scottish Widows has migrated c.1m policies and c.£36bn AuA to strategic platforms and decommissioned 19 legacy applications.

Benchmarks
In 2024 Scottish Widows again achieved Defaqto 5-star product ratings for a number of its individual pensions, workplace pensions and protection products. As well as a Gold rating for both its pension and protection service. Scottish Widows also won best Pension provider at the Money Age awards.

At the 2024 Investment Life and Pensions Moneyfacts Awards, Scottish Widows was awarded Best Personal Pension Provider (for the third year running) and Best Critical Illness Provider (for the second year running).

Scottish Widows achieved 5 stars for the seventh consecutive year in the 2022 Financial Adviser Service Awards in Investments, and Pensions and Protection, before dropping back to 4 stars in 2023 and 2024. In 2020 Scottish Widows also 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. 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 (Trustpilot rating): 3.0 in 2023 [2022: 1.2]. As at November 2024, the score had increased further to 4.3
- Customer complaints (FCA reportable complaints per 1,000 policies): 2.5 in 2023 [2022: 2.0]
- Colleague engagement index (% favourable): 58 in 2023 [2022: 70]

To continue the recovery of its customer service proposition, investments were made in staffing, as well as in digital capability, allowing more customers to self-serve through the customer service channel of their choice, which has resulted in improvements in the Trustpilot rating. The increase in customer complaints in 2023 was driven by surges in demand due to the volatile and uncertain economic environment, alongside attrition and challenging recruitment conditions. Key themes emerging for the colleague engagement index score were new flexible working arrangements and confidence in customer centricity.

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 and continued until completion in 2022.

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

STRATEGY

Market Positioning
LBG's IP&I division offers insurance, pension, investment and general insurance products and services, supporting around 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 IP&I 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. In General Insurance the focus remains on being customer-centric and leveraging the advantage of being part of LBG.

2023 was described as a year of significant change, with a refreshed management team and a refocused strategy, supported by the group's investment in the development of the business, including the investment propositions to support the group's mass affluent strategy, and innovating intermediary propositions through the Embark and Cavendish Online acquisitions and accelerating the transition to a low carbon economy.

Specifically, progress against strategic priorities for the IP&I business unit of LBG in 2023 included the following:

- Workplace pensions business saw a 9% annual increase in regular contributions to pensions administered, with £4.9bn net AuA flows in the period, contributing to 18% AuA growth
- £4.2bn invested in climate-aware investment strategies through Scottish Widows over the period. Cumulatively £21.7bn invested, on track to meet the target of between £20bn and £25bn invested by 2025
- Migrated c.1m policies and c.£36bn AuA to strategic platforms and decommissioned 19 legacy applications
- Supported 13,000 customers to secure a guaranteed income for life, issuing £1bn of annuity policies, growing from 9,000 customers and £568m in 2022. Increased market share from 15.6% in 2022 to 20.1%
- Continued progress in its protection offering, with the integration of Cavendish Online into the wider Scottish Widows Group, and protecting over 20,000 families through LBG's direct channels

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
Being owned by LBG makes SWL part of the only integrated banking, insurance and investment provider in the UK. With SWL supporting its broad market position and the opportunities afforded by its group role through a customer focused multi-product, multi-channel offering. With a wide range of product offering including annuities, pensions, protection and investments, distributed via independent financial advisors, bancassurance and directly to consumers. SWL's product offerng is as follows:

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 acquisition of Cavendish Online in late 2022 and the launch of a new income protection proposition in 2024 supporting the ability to continue to grow in a competitive market.

Workplace Pensions: with SWL now a top two player in the workplace pensions market, they continue 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. The acquisition from Zurich in 2017 was a significant factor here, bringing scale and capability. The Corporate Pensions proposition consists of the auto enrolment scheme, group personal pension and in 2019 the Scottish Widows Master Trust was launched. A key focus remains on digitising the business to enable delivery of modern propositions for clients and digital journeys for customers through developments on the Scottish Widows App.

Intermediary Wealth: the acquisition of Embark is crucial to Scottish Widows' on-platform Intermediary and Retail D2C ambitions, whilst it also continues to offer its Retirement Account pension and insured funds to advisers. The acquisition unlocks an opportunity in the IP&I market to obtain above market growth and proposition transformation. Enabling a full service proposition to be taken to market (including ISA & GIA products) and the opportunity to leverage a channel led strategy that meets distinct segment needs The benefits of this were seen in 2023 through the launch of the rebranded Scottish Widows IFA Platform and in the D2C market through new ready-made' investment and pension products.

Retirement: this is an area where SWL sees a unique opportunity to become the retirement provider of choice in both retaining and attracting assets from being part of the wider LBG. Looking to build on its existing presence with the development of engaging digital led retirement conversations, whilst still proving telephony guidance for those with complex needs.

Individual Annuities: the offering includes an Enhanced Annuity and a Standard Annuity which was launched in 2019. The business indicates that it has appetite for further growth in this product type, in line with changes in market demographics and growth in demand. In terms of the latter, SW reports that it is scaling up and as part of that is modernising its process, with more digitisation.

Bulk Annuities: SWL entered the Bulk Annuity market in 2015 and with a market share of less than 5%, is one of the smaller participants in the market. In 2024, SWL made a strategic decision to exit this market in line with its strategy of building a customer-focused digital leader and integrated financial services provider. This will release capital and enable SWL to focus on growing strategically important lines of business such as insurance, investments, retirement and pensions, through direct and intermediary channels.

With regard to longstanding customers, significant propositional work remains underway as part of the extensive longstanding customers programme. This has included reduction in product charges and developments such as the implementation of drawdown capability in 2021 for existing customers. With substantial work on migrating customers to newer technology largely completed.

SWL continues to offer a wide range of funds from ready-made/governed investment portfolios to specialist funds, with the aim being to meet a differing range of investment needs. SWL has focused on sustainable investing in recent years, with high profile goals aligned to the Group's purpose of helping Britain prosper and providing long-term funding to support the transition to a more sustainable, low carbon economy.

SWL has focused on digitisation for a number of years, with the aim of transforming its technology estate and operating model to deliver enhanced experience and productivity. With the bulk of this work now achieved the focus now will be on how SWL can make it simple for direct customers to see their products in one place and engage with their future financial plans by being able to access a broad range of products through a 'digital waterfront'. Scottish Widows already makes a number of engagement tools available to advisers and customers across its product areas and within the Scottish Widows app. They'll look to develop this capability going forward, looking to provide support, guidance and education for D2C customers. The aim here is not to compete with advisers, but instead provide complementary offerings for those not unable to be served by the advised market.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2023

Assets

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Fixed interest	14,797	10,596	12,096
Equities	0	0	0
Collectives	13,262	11,378	11,006
Property	15	12	11
Linked	118,372	109,510	122,540
Derivatives	2,682	1,581	1,516
Loans and mortgages	9,230	7,559	7,299
Reinsurance recoverables	12,364	10,939	11,506
Cash	798	1,225	1,093
Other	2,684	2,697	2,434
Total Assets	174,205	155,496	169,501

Liabilities

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	81	63	53
Technical provisions - life	31,062	23,920	24,800
Technical provisions - linked	129,460	118,786	131,933
Other	6,718	6,874	5,765
Total Liabilities	167,321	149,643	162,551
Excess of assets over liabilities	6,885	5,853	6,950

Funds under management increased to £157bn in 2023 [2022: £154bn], reflecting net flows and market gains.

Linked assets remained the most dominant, accounting for 72% [2022: 70%] of the total. Collectives at 6% [2022: 7%] remained significant, with fixed interest assets 7% [2022: 7%] of total. Remaining assets include mortgage loans of £7.3bn [2022: £7.6bn], or 4% [2022: 5%] 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 [2022: 7%]. Reinsurance is primarily used to reduce underwriting risk and also for improving profitability, reducing capital requirements, obtaining technical support and to offer access to third-party funds via Investment Fund Links.

There is ongoing litigation concerning policies issued by CMIG (now SWL) sold by independent intermediaries in Germany and Austria, principally in the late 1990s-early 2000s. New complaint and litigation volumes continued to reduce in 2023. The total provision made to 31 December 2023 was £709m [2022: £709m]; utilisation increased to £13m in the year [2022: £9m]; the remaining unutilised provision was £75m [2022: £88m].

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 2023 the split was £22m and £52m respectively [2022: £24m and £64m]. 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. Experience in Austria might worsen in future due to a change in legislation in 2022 which removed the time barring of claims.

Life & Health SLT Technical Provisions

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Insurance with profit participation	9,985	7,826	7,009
Linked insurance	129,460	118,786	131,933
Other life insurance	19,069	14,442	16,109
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	81	63	53
Health reinsurance	0	0	0
Life reinsurance	2,008	1,652	1,682
Total life & health SLT technical provisions	160,603	142,769	156,786

Life Expenses

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	1	1	16
Insurance with profit participation	32	40	(25)
Linked insurance	683	717	668
Other life insurance	452	329	395
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	4	4	3
Other expenses	72	67	57
Total life expenses	1,243	1,157	1,114

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 84% [2022: 83%] of the total. There remains a declining proportion of, mostly historic, with profits business, which represents 4% [2022: 5%] of the total, the balance being non profit business, which is mostly categorised as 'Other life insurance'.

With profits expenses were negative in 2023 due to interfund write-offs that occurred in the year. There were related/offsetting entries in the unit linked and other life categories, which resulted in a net increase in SWL of around £12m.

Solvency Capital Requirement (SCR)

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Market risk	3,237	2,382	2,018
Counterparty default risk	297	518	468
Life underwriting risk	3,982	2,308	2,531
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(4,212)	(3,036)	(2,872)
Intangible asset risk	0	0	0
Operational risk	1,818	1,883	1,959
Capital add-ons already set	0	0	0
Other items	(809)	(715)	(676)
Solvency capital requirement	4,314	3,339	3,428

Eligible Own Funds

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Tier 1 unrestricted	5,259	4,406	4,884
Tier 1 restricted	0	0	0
Tier 2	1,671	1,452	606
Tier 3	0	0	0
Eligible own funds to meet SCR	6,930	5,858	5,490
Excess of own funds over SCR	2,616	2,519	2,062
SCR coverage ratio (%)	160.6	175.4	160.2

SWG has permission from the PRA to publish a single SFCR covering in respect of SWG and its UK insurance subsidiaries, although SWE produces its own version. An Internal Model is used to calculate the SCR for both SWG and SWL.

Tier 1 Own Funds increased over 2023 primarily due to earnings from in-force business and the positive impact of regulatory changes offset by dividends. Tier 2 Own Funds reduced over 2023 due to an £850m redemption of Subordinated Debt (Tier 2) Capital in June 2023, repaid from the repayment of a £317m loan to SWG together with surplus liquidity within the company.

On a Solvency II basis the regulatory surplus of SWL in excess of capital requirements was £2.1bn at 31 December 2023, after a £350m interim dividend which was paid in first quarter of 2024 [2022: £2.5bn, after a £100m dividend in the first quarter of 2023].

The Solvency II ratio for SWL was 182% on a shareholder basis, while the Regulatory Solvency Ratio included in the SFCR was 160% [2022: 191% and 175% respectively].

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 £13m in 2023 [2022: £52m]. The burnthrough SCR decreased by £39m as a result of favourable market movements, in particular an increase in equity returns, over the period. Other smaller changes to the assets and liabilities within the funds were also favourable in terms of decreasing the undiversified burnthrough SCR.

The TMTP deduction was recalculated in 2023 and reduced by £167m [2022: £915m reduction], from £544m to £377m, due to annual run-off on 1 January 2023 and recalculation on 31 December 2023. The recalculation led to a significant reduction in the TMTP deduction primarily due to the Solvency UK reforms to the Risk Margin and removal of the Financial Resource Requirement test requirement with respect to TMTP. Working capital excludes the part of the TMTP deduction in the With Profits Funds, which was £7m [2022: £19m] at 31 December 2023.

Technical provisions increased by £42m on 1 January 2024 [1 January 2023: £54m] and working capital reduced by £31m [2022: £54m], due to the effect of the annual run-off of the TMTP deduction. The solvency coverage ratio for SWL decreased by 1.0%. Similarly, the impact for SWG was a reduction in the solvency coverage ratio of 1.0% [2022: 1.6% and 1.5% respectively].

The most significant risks across the Insurance Group are underwriting risk, market risk, liquidity risk and operational risk. Within the underwriting and market risks, the most significant risks include; longevity, persistency, expenses 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 68% [2022: 66%] of undiversified SCR at the level of the Insurance Group as indicative of the diverse portfolio. For SWL the net diversified SCR increased by £89m in 2023 to £3,428m [2022: £3,339m]. Movements included:

- £97m increase as a result of market variances over 2023, most significantly due to falls in interest rates and rises in equity markets
- £250m increase due to writing new business, primarily unit-linked and annuity business
- £193m decrease due to in-force business running off
- £5m decrease from the update of risk calibrations which were overall broadly neutral
- £54m increase from a reduction in Loss Absorbing Capacity of Deferred Tax (LACDT) over the year
- £114m decrease from other impacts including rebalancing the equity hedge, increasing the use of Unit Matching and movements in the MAP Asset-Liability matched position

Gross Life Premiums Written By Line of Business

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	9	8	7
Insurance with profit participation	41	19	23
Linked insurance	13,119	12,981	13,500
Other life insurance	988	1,848	2,245
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	61	57	52
Total gross life premiums written	14,220	14,913	15,827

Gross Life Premiums Written By Country

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Home country	14,220	14,913	15,827
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	0	0	0
Total gross life premiums written	14,220	14,913	15,827

Gross written premiums increased by 6% in 2023 to £15.8bn [2022: £14.9bn].

SWL saw life and pensions sales (PVNBP) reduce by 10% to £14.5bn [2022: £16.0bn], with interest rate changes resulting in higher discounting applied in 2023, partially offset by strong performance in the Annuities business. Additionally, £2.9bn PVNBP was contributed by Embark in 2023 [2022: £3.0bn].

Profit

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Profit (loss) before taxation	(34)	210	(150)
Taxation	26	(2)	65
Profit (loss) after taxation	(8)	208	(85)
Other comprehensive income	(9)	8	0
Dividends	(200)	(600)	(100)
Retained profit (loss)	(217)	(384)	(185)

Life Business Flows

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Net life premiums earned	19,287	12,471	12,723
Net life claims incurred	(8,869)	(9,189)	(11,161)
Net flow of business	10,418	3,282	1,561

SWL reported a consolidated loss after tax of £85m in 2023 [2022 restated: £1,389m loss], consisting of a shareholder loss before tax of £150m [2022 restated: £1,876m, including a loss of £1,238m driven by contract modifications] offset by a tax credit of £65m [2022 restated: tax credit of £487m]. The result reflected market movements. SWL paid dividends of £100m [2022: £600m].

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 to £190m [2022 restated: £62m loss].

There were £5,301m of net regular premiums (41.6% of the total) in 2023 [2022: £5,011m, 40.2%]. The most significant lines of business were corporate pensions 66% of total net premiums, Individual annuities 11%, Bulk annuities 9%, and Retirement Account 5%.

With net premiums increasing by 2% to £12.7bn [2022: £12.5bn] and net claims increasing by 21% to £11.2bn [2022: £9.2bn], there was a reduced net inflow of £1.6bn [2022: £3.3bn].

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.

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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