Legal & General: IFRS 17 Transition Update

Legal & General Plc (“Legal & General” or the “Group”) today provides investors and analysts with an update on our transition to IFRS 17. Access slides here: link

No change to strategy, solvency or dividends

IFRS 17 – a global standard implemented by the sector on 1 January 2023 – is an accounting change which does not affect our strategy, solvency or dividends. The Board’s confidence in the Group achieving its 5-year ambitions remains unchanged. IFRS 17 does not change the underlying economics of our insurance contracts. It does not impact LGIM or LGC. It only impacts the reporting of our annuity and protection businesses (LGRI, Retail), changing the timing of recognition of earnings from these products but not the quantum.

On track to achieve our ambitions

We remain on track to achieve our 5-year ambitions. Over 2020-2024, we expect to generate £8-9bn of capital, to grow EPS faster than DPS, and cumulatively for net surplus generation to exceed dividends. As previously stated, the Board’s aim is to continue to grow the dividend at 5% per annum to FY24.

IFRS 17 recognises a £14bn store of future value for shareholders

Under IFRS 17, L&G recognises a significant stock of value in the Contractual Service Margin (CSM) and Risk Adjustment (RA). At 31st December 2022, this amounted to £13.6bn: future value that will unwind into profits as experience plays out in line with expectations. Over the course of 2022, the CSM has increased from £11.2bn to £12.1bn as the contribution from new business and assumption changes has exceeded the release into profits.

LGRI accounts for c60% of this stock of value, and Retail for c40%. We have provided guidance in the presentation to help analysts and investors model IFRS 17 profits for these divisions.

FY22 IFRS 17 operating profit from divisions is estimated to be £2.1bn. Consistent with previous guidance, the main drivers of the change from IFRS 4 are the removal of new business profits and assumption changes, which are now added to the CSM and released over the lifetime of the contract.

Looking forwards, we expect the adoption of IFRS 17 to result in a more stable and predictable operating profit profile for L&G through steady CSM and RA releases. We expect the contribution to the CSM and RA from new insurance business and assumption changes (which impact the CSM only) to continue to exceed the run-off from our in-force insurance book. As a result, we expect insurance earnings to grow over time.

Indicatively, writing £10bn of UK PRT per annum would result in 6-7% CAGR in related operating profit over five years. We continue to see compelling investment opportunities across all our businesses, providing scope to deliver growth beyond this level.

Insurance Trading Update: strong progress in PRT, individual annuities & US protection

Year-to-date, LGRI has transacted on £6.8bn of PRT (UK: £6.7bn, International: £0.1bn), with £5.0bn completed by the half year. There has been a step-up in the number of pension schemes approaching the insurance market, alongside an increase in £1bn+ transactions, with several more such pension schemes intending to complete transactions this year. The pipeline for 2023 is the largest we have seen.

1 FY22 EPS will be restated under IFRS 17
and we are on track for one of our busiest years ever. We have secured PRT new business premiums year-to-date at margins and capital strain that are in line with our long-term average.

In Retail, we have seen ongoing, higher demand for individual lifetime and fixed term annuities due to improved rates on offer as a result of higher interest rates, with total annuity new business premiums of £575m at end June, 27% higher than the prior year. US Protection new business is up 39% on the prior year, with APE of $86m. UK protection new business is down 13% on the prior year, with APE of £129m, predominantly due to fewer large Group Protection schemes coming to market.

Solvency II: supported by strong capital generation

The Group estimates its Solvency coverage ratio as at 30 June 2023 to be approximately 225%, principally reflecting the contribution from ongoing operational surplus generation, and after paying the 2022 final dividend (FY22: 236%).

Notes to editors

About Legal & General

Established in 1836, Legal & General is one of the UK’s leading financial services groups and a major global investor, with around £1.2 trillion in total assets under management (as at FY22) of which a third is international. We also provide powerful asset origination capabilities. Together, these underpin our leading retirement and protection solutions: we are a leading international player in pension risk transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. Through inclusive capitalism, we aim to build a better society by investing in long-term assets that benefit everyone. As at 4 July 2023, Legal & General has a market capitalisation of £13.7 billion.

Forward looking statements

This announcement may contain certain forward-looking statements relating to Legal & General, its plans and its current goals and expectations relating to future financial condition, performance, results, strategy and objectives. Forward-looking statements often use words such as ‘may’, ‘could’, ‘will’, ‘expect’, ‘intend’, ‘estimate’, ‘anticipate’, ‘believe’, ‘plan’, ‘seek’, ‘continue’ or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they are subject to future events and circumstances which are beyond Legal & General’s control, including, among others, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisitions or combinations within relevant industries. Please see Legal & General’s most recent Annual Report and Accounts for further details of risks, uncertainties and other factors relevant to the business and its securities (available at: https://group.legalandgeneral.com/en).

As a result, Legal & General’s actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place undue reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General does not undertake to update forward-looking statements contained in this announcement or any other forward-looking statement it may make.

Further information

Investors:
Edward Houghton  Group Strategy and Investor Relations Director  +44 (0)203 124 2091
Nim Ilankovan  Investor Relations Director  +44 (0)203 124 2054
Blake Carr  Investor Relations Director  +1 240 397 0053

Media:
Natalie Whitty  Group Corporate Affairs Director  +44 (0)203 124 2878
Graeme Wilson  Teneo  +44 (0)207 353 4200

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