How our financial strength has weathered the coronavirus storm

As many businesses count the cost of the coronavirus, we wanted to provide some reassurance around our capital position, and underline our commitment to supporting the needs of your business and your clients.

What we mean by our capital position

When we talk about our capital position, we're referring to the excess of the assets we have, over and above the liabilities we hold.

We describe this as 'available capital' and it's the lifeblood of any company. It helps us invest in our business for the benefit of our customers. It allows us to pay our ProfitShare awards and it allows us to withstand market shocks; like the one we're experiencing right now.

We're a financially strong, stable and well-capitalised business

As shown in our 2019 end-of-year results, our business had £10.3bn of available capital. If we measure this against our Solvency II capital requirement of £4.4bn (which is how much we calculate is needed to cover the cost of a 1-in-200 adverse event over the next year), we had 2.3 times the amount of available capital the regulator requires us to hold - in other words, an 'investor ratio' of 231%. This is an undoubtedly healthy position to be in.

As markets began responding to the coronavirus outbreak, we experienced an 8% drop in our investor ratio.[1] We do however remain confident in our ability to withstand the current turmoil - though we are of course monitoring the situation closely.

[1]Figures calculated on 13 March 2020

We use hedging strategies to cushion the impact of market volatility

We use hedging strategies to boost our assets when market shocks occur. Otherwise our assets could fall by more than our liabilities, thereby reducing our capital strength and weakening our financial stability. We use hedging to balance this out.

For instance, when equity markets fall, the value of our customers pensions fall - and therefore the amount we can collect in charges falls. We look to offset the impact of this by holding equity hedges that increase in value when markets dip.

Similarly, when interest rates fall, the cost of meeting guarantees on our policies increases. But again we look to offset the impact of that by giving ourselves the option to lock into long-term interest rates in advance.

The effectiveness of our hedging strategies has meant our capital cover ratios have remained steady throughout this uniquely challenging time.

> "We're confident about our financial strength and our ability to withstand this current crisis."
>
> **Shaun Cooper, Chief Actuary**

How our competitors have fared during the coronavirus crisis

When measuring financial strength, providers will often quote their 'investor ratio'. This has become the key reporting metric under Solvency II, and it's the ratio of a company's available capital to their regulatory capital requirements (replacing the previous widely-used solvency metric known as the 'free asset ratio').

While we can't comment on the different approaches our competitors have adopted to cope with the ongoing crisis, we can compare our investor ratio with the updated figures two of our competitors have published so far.

	Year end 2019 Investor ratio	Updated Investor ratio
Royal London	231%	223% (-8%)[1]
Aviva	206%	182% (-24%)[2]
Prudential	176%	166% (-10%)[3]

Figures correct: [1]13/03/20, [2]08/04/20 and [3]06/03/20

How these events might impact Royal London over the longer term

As we've already shown, we remain a well-capitalised and financially stable business. And we'll continue to take appropriate action to help us maintain that position.

A benefit of our mutuality also means we're not under any pressure from shareholders to make snap decisions. And, over the longer term, we remain confident that we can continue to balance the need to preserve our financial strength and stability, while continuing to invest in our business and make our ProfitShare payments.

We've created new content to help support your client conversations

At a time like this, we understand you might face questions from your clients about the financial security and stability of the firms you've recommended.

To reassure them that they don't need to worry about the future of Royal London, we've recorded a customer podcast with our Group CEO, Barry O'Dwyer, which you can share with your clients. You can find this by visiting us at adviser.royallondon.com/financialstrength.

You can still count on our support, whenever you need it

From an operational point of view, we've been able to adapt and respond to the crisis quickly. In just six days, 99% of our service operations moved out of our offices and into our homes.

And thanks to our investment over the years in building our operational resilience, you'll find all our processes are fully operational and our telephone lines remain open as normal.

> "Thank you for recommending us. We will continue to work hard to repay the trust that you and your clients have in Royal London."
>
> **Barry O'Dwyer, Group Chief Executive**

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