ISSUED 19 January 2024

PLATFORM SECTOR
Embark

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, 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
PLATFORM SECTOR SUPERIOR
EMBARK INVESTMENT SERVICES LIMITED

Supporting Ratings

	Service	Image & Strategy	Business Performance
Embark Investment Services Limited	★★★★	★★★★	★★★★

SUMMARY

- This report covers Embark Investment Services Ltd (EISL), the manufacturer of the Scottish Widows Platform (rebranded from Embark Platform)
- EISL also manufactures products for other parts of Lloyds Banking Group plc (LBG) and other financial services brands
- EISL is a wholly owned subsidiary of Embark Group Ltd (EGL), with EGL, excluding Rowanmoor, sold to LBG in January 2022, with EGL now a subsidiary of Scottish Widows Group Ltd (SWG) within this structure
- Prior to this, Embark had been developing an increasingly integrated structure and a broad but coordinated distribution capability, with intermediaries, workplace and partnerships with a balance between pension and platform elements
- EGL is expected to contribute to LBG's strategy of digital direct-to-consumer growth, unlocking the group's full potential in the intermediary market and building on external 'white label' and internal LBG partnership opportunities
- Meaning Scottish Widows Platform is becoming more a channel of distribution than a standalone legal entity within LBG
- Following the LBG acquisition, there has been a rationalisation of the Embark platforms, with the business of Sterling ISA Managers Ltd (SIML), formerly the provider of the Advance by Embark platform, migrated to EISL (Scottish Widows Platform) during 2022 and 2023
- Following the acquisition by LBG, there has been a rationalisation of the Embark platforms, with the business of Sterling ISA Managers Ltd (SIML), formerly the provider of the Advance by Embark platform, migrated to EISL during 2022 and 2023
- To support the transformation of Embark, £50m of capital was injected into EGL in February 2022, £20m in June 2022 and a further £55m in February 2023 by SWG
- 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 create new revenue streams, whilst deepening relationships with its customers
- LBG delivered statutory profit after tax of £5.6bn in 2022

COMMENTARY

Financial Strength Ratings

The Embark business now has the backing of LBG, within which it has clear strategic position and role for growth.

At 31 December 2022, LBG reported a reduced CET1 capital ratio of 15.1% [2021: 17.3%]. The pro forma CET1 capital ratio at this date was 14.1% [2021: 16.3%] after capital distributions and pension contributions. 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 163% [2021: 191%], The equivalent regulatory view of the solvency ratio (including With Profits funds and post-dividend) was 152% [2021: 169%].

To support the transformation of Embark, £50m of capital was injected into EGL in February 2022, £20m in June 2022 and a further £55m in February 2023 by Scottish Widows Group Ltd (SWG).

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.

Embark Investment Services Limited

Still a relatively new company, EISL continues to invest heavily in its infrastructure and other supporting capabilities.

EISL was established with £300m in 2016, receiving a series of capital injections to support its growth: £1.9m in 2017, £1.7m in 2018 and £9.0m in both 2019 and 2020 covering the ATS acquisition. In 2022 and 2021, EISL received additional capital of £2.5m and £7.0m, respectively, to support its continued transformation.

As at 31 December 2022, EISL had regulatory capital of £9.8m and surplus regulatory capital of £0.8mk giving a capital ratio of 109% [2021: £9.9m, £2.0m and 125% respectively].

Subsequent to the year end, a further £3.0m of capital was received on 31 January 2023.

The platform is expected to be loss making in the short term until it builds sufficient scale, although the consolidation with SIML will be positive in this respect. A single technology and operational solution is expected to deliver the scale benefits anticipated.

EISL is now the sole platform provider and intrinsically linked to the wider Embark Group and its other propositions and draws strength from its position in the Group. Its purpose is now much more to the fore in the LBG strategy, including being the provider of the Scottish Widows Platform, which sees it being able to reinvigorate and enhance LBG's intermediary proposition under Scottish Widows in addition to the stockbroking business.

Service Rating

EISL states that its platform is designed to deliver value to advisers and in turn, create customer value. It has continued to invest in building enhancements to the functional capabilities of the platform, in order to migrate from the Advance by Embark platform and to continue to evolve its offering for customers.

Embark's focus is to invest 'its capital and energies in consumer innovation, enhancing consumer outcomes and achieving the highest staff engagement levels amongst our industry peers'.

Albeit the rapid change the business has been through and particularly the most recent corporate transfer has resulted in service challenges for the business, which it will need to address to ensure these are only transitional and short term.

Technical product and investment support is available, including: online support through a dedicated website - scottishwidows-platform.com; web chat; delivering direct access to support; a telephone-based adviser support team; Platform Business Development Managers; a technical support team for Third Party Investment Accounts, pensions and tax planning; and specialist free investment research, available through The Adviser Centre.

The Embark platforms (including Advance) were awarded 5 stars at the Financial Adviser Service Awards Platform Category in 2023 and 2022. Embark also took the 'Readers' Choice' award in 2023 (Scottish Widows Platform) and 'Most Improved' in 2022. Embark was awarded 4 stars in the Pensions and Protection Category in 2023 and 2022.

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.

The NPS across LBG as a whole reduced slightly to 67.7 as at December 2022 [2021: 69.3], remaining good, with 2021 an all time high.

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.

Embark was founded in 2013 to capitalise on a collision of demographic, behavioural, regulatory, market and structural changes that had taken place or were anticipated. Embark's strategy was consequently somewhat different to other operators of its size and current product set in the market. Key within this strategy was a mix of product competencies, consultancy services and an ability to satisfy a range of distribution routes. All of this enabled by a service-centric philosophy and leading digital technology platform. Embark intended to leverage its disruptive position in the Platform sector and combine this with its workplace offering to ensure that it was fully participative in all the major distribution channels for retirement savings in the UK.

Following several years of merger and acquisition activity, Embark's emphasis was on organic growth maximising the return from its recent technology investment. It had sought further exposure in the market growth areas of mainstream platform and direct to consumer SIPPs, and 2018 saw relationships with several D2C providers formed.

However, the opportunity arose in 2019 for Embark to make two strategic acquisitions in the platform space: the intermediated business of ATS and the retail platform business of Zurich UK. The Zurich acquisition also provides the opportunity to diversify into multi-asset fund management through the acquisition of Zurich Investment Services Ltd, which has been renamed as Embark Investments Ltd and now trades as Horizon by Embark. These acquisitions brought a significant increase in AuA and also improved the balance of the business.

The acquisition of Embark by LBG changes the scale of the group it now finds itself in, with wider image and strategy considerations it now needs to adopt.

Embark currently operates with the following brands:

- The Scottish Widows Platform, launched in 2017 as Embark, provided and administered by EISL
- Embark Pensions offers a range of Self Invested Personal Pensions (SIPPs) through advisers and white label partners to help meet their clients' retirement needs
- Embark Investments/Horizon by Embark offers five multi-asset portfolios designed to align with investor's chosen risk profile
- The Adviser Centre, launched in 2014, is an online fund research and consultancy service. It is dedicated to supporting financial advisers in their fund selection work, with a special emphasis on helping them to assess investment suitability
- Stocktrade provides execution only, corporate dealing services to large companies, investment platforms and building societies
- Halifax Share Dealing, an execution only stockbroking business

Additionally, there are two legacy brands:

- Hornbuckle, founded in 1982. Its initial business was providing financial advice to clients and administering SSASs, before entering the SIPP market in 1997
- EBS launched in December 1970 as one of the first companies to offer small self-administered schemes (SSASs)

Both brands are no longer marketing new business, with new SIPP applications managed by Embark Pensions. New SSAS business is not allowed, and legacy business is administered by Rowanmoor via an outsourcing agreement

IFA distribution remains the platform's core long-term channel in the UK. Embark is expected to remain largely independent as it delivers on the wider group priorities in addition to deliver for its existing portfolio of clients.

The addition of Embark to Lloyd's multi-brand portfolio is expected to deliver a market-leading, modern and self-managed investment offering for its customers. LBG states it is the only UK financial services provider that can meet its customers banking, insurance, pension savings and investment needs in one place. The integration of Embark will complement what it already has in place with Schroders Personal Wealth and Cazenove Capital, who will continue to offer face to face advice for affluent and high net worth customers.

LBG has ambitious growth plans which the Embark acquisition hopes to 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.

LBG's immediate priorities for Embark include:

- Design and launch of digital direct to customer propositions for pensions and investment, with a Ready Made Investment proposition having been launched
- Growing the Platform business & reinvigorate the Retirement Account proposition
- Expanding white label capability and solutions

Following a strategic review, Embark exited the workplace market on 9 September 2022, concluding the sale of Vested Employee Benefits Ltd to Benefiz Ltd.

Previous Embark business Rowanmoor was not included as part of the LBG transaction, and broadly retains its previous ownership with no continuing connection to the Embark operation or LBG.

D2C partners now include Natwest, Coutts, Standard Life, LV=, Nutmeg, Bestinvest, Charles Stanley, Moneyfarm, Wealthsimple and HUB Financial Solutions. Embark's white-label proposition will be something that LBG looks to develop further in the future, both for D2C and in the advised market.

Business Performance Rating

EISL client numbers increased by 32.1% to 205,063 [2021: 155,290]. Within this Wrap clients increased by 33.1% to 185,736 [2021: 139,636] and SIPP clients by 23.5% to 19,327 [2021: 15,654]. The increase in overall client numbers was driven by the migration of the legacy CUTAS portfolio of clients from SIML, which was completed in January 2022 and included 32,915 WRAP clients and £888m AuA.

The loss before tax decreased to £3,116k [2021: £12,050k] due to the write down of £8,666k of goodwill and intangible assets in 2021. Underlying revenues increased to £17,620k [2021: £10,621k], due to the migration of the CUTAS portfolio from SIML.

SWG received dividends totalling £600m [2021: £310m] from its subsidiaries in 2022 and paid dividends of £654m [2021: £74m] to LBG, in accordance with its risk appetite policy.

The IP&I division reported a 39% increase in underlying profit before tax to £391m in 2022 [2021: £281m], helped by a reduction in remediation costs.

IP&I contributed 5% [2021: 4%] of LBG's underlying profit in 2022, with Retail contributing 60% [2021: 64%], Commercial Banking 25% [2021: 24%] and Equity Investments and Central Items 9% [2021: 8%].

LBG's statutory profit after tax decreased by 6% to £5.6bn [2021: £5.9bn], with higher income more than offset by higher impairment charges as a result of the revised economic outlook (compared to a credit in the prior year). 2021 also included the benefit of a deferred tax remeasurement. Underlying profit before tax reduced by 1% to £7.4bn [2021: £7.5bn], with income growth offset by an increased impairment charge (compared to a credit in the prior year).

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: 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 £197bn 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 by 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.

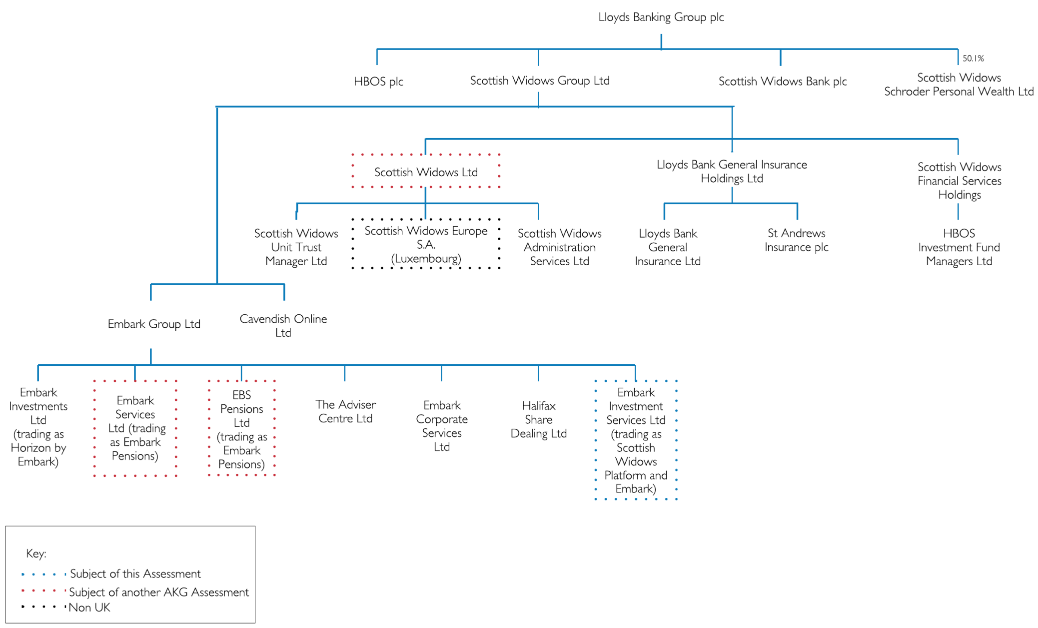
In 2018, LBG terminated and settled its partnership agreements with Aberdeen Asset Management plc, a subsidiary of Standard Life Aberdeen plc (renamed as abrdn plc). In October 2018, LBG entered into new asset management agreements with BlackRock and Schroders plc. Scottish Widows was, however, subject 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 realise, targeting a top-three position in direct-to-consumer self-directed 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.

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.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Embark Investment Services Limited

BASIC INFORMATION

Ownership & Control
Lloyds Banking Group plc

Year Established
2016

Country of Registration
UK

Head Office
7th Floor 100 Cannon Street, London, EC4N 6EU

Contact
https://platform.scottishwidows.co.uk/contact/

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
Embark:	
Chair	D MacKechnie
Chief Executive Officer	J M Leiper
Chief Finance Officer	S C Guild
Chief Operating Officer	P D Sheehan
Chief Technology Officer	R K Adams
Chief Risk Officer	L B M King
Head of Intermediary Sales	J Drewett
Chief Executive Officer, Embark Investments	B MacLennan
Intermediary Distribution Director, Embark and Scottish Widows	R Ravi-Burslem
Head of Propositions	J M D Sandell
Managing Director, Embark Pensions	M D Robinson

Company Background
The Embark Group was established in 2013 with a fifteen year strategic vision to 'build a leading independent digital retirement platform in the UK that combined the technology strengths of the Wrap Platform market, with the deep pension expertise of the traditional SIPP and SSAS players'. The Group holding company is EGL, renamed from Hornbuckle Mitchell Holdings Ltd in December 2015.

In itself Embark has been a growing, diversified, financial services business whose acquired operations now have a history dating back more than 40 years. Following the ATS migrations, Embark had over 600 employees and operates from 6 locations in the UK, with around £36.2bn of Assets under Administration and over 460,000 policies/customers.

Embark operates in both the advised and institutional areas of the retirement market through a range of pension, wrap platform, research and consultancy services.

A number of acquisitions and investments had seen Embark transition from a privately owned business to a provider of full-scale retirement solutions with significant institutional backing, including BlackRock, FNZ, Franklin Templeton and Legg Mason. Additionally, Merian Chrysalis Investment had also made a material investment in the Group.

Significant developments are as follows:

- April 2013 - controlling stake in Hornbuckle acquired
- September 2014 - Partnership with FNZ commences to digitise and support operations
- January 2015 - Nutmeg launches direct to consumer pension offering via ESL
- February 2016 - Avalon Investment Services Ltd acquired, bringing with it platform capabilities
- July 2016 - Rowanmoor Group plc acquired, expanding Embark's SIPP and SSAS capabilities
- October 2016 - The Adviser Centre added investment research and consultancy capabilities
- December 2016 - Embark Corporate Services Ltd (ECSL) created to consolidate Embark's operations
- March 2017 - the assets of DISCUS acquired
- May 2017 - EBS Management plc, renamed as EBS Pensions Ltd (EBS), together with its subsidiaries acquired from Charles Stanley Group plc, expanding Embark's SIPP and SSAS offering. Charles Stanley and Embark became ongoing partners for SIPP and SSAS services to Charles Stanley clients.
- December 2017 - Rowanmoor Consultancy Ltd sold to Mazars LLP, as Embark exits from financial advice-based services December 2017 - Vested Employee Benefits Ltd launched in a joint venture with Mazars, bringing employee benefits and workplace savings to the Group
- January 2019 - Embark Pensions is launched
- November 2019 - Embark acquired the rights to the future migration of the advised and partnership client books of ATS
- May 2020 - Zurich Retail Wealth and Horizon Funds are acquired expanding Embark's investment capabilities. Embark has also entered into a five-year partnership agreement with Zurich with the aim of creating digital life and protection products
- May 2020 - Advance by Embark platform and Horizon by Embark businesses are launched
- January 2021 - The ATS migration completed, bringing £7.3bn of AuA and over 30,000 of new clients
- January 2022 - Embark is acquired by LBG
- September 2022 - Sale of Vested Employee Benefits Ltd to Benefiz Ltd, exiting Embark from employee benefits consulting
- Transfer in of the business from SIML in 2022 and 2023, bringing £14.1bn of assets and 121k clients

The Embark Group itself has sought investment to fund this expansion and development, with share issues of £6.8m in 2016, £3.25m in 2017 and £7.3m in 2018. In December 2018, the holding company of FNZ became a minority shareholder of Embark, with a 9.09% holding. In July 2019, Embark raised £19.4m of net new capital, funded by new institutional investors BlackRock, Inc., Legg Mason, Inc. together with a material investment by Merian Chrysalis Investment Company Ltd. In addition, £45.0m of capital has been raised through a new investor (Franklin Templeton Global Investors) and existing shareholders in 2020 to fund the acquisitions from Zurich.

In July 2021, it was announced that Embark Group had been sold to LBG, with the transaction completing in January 2022. Rowanmoor was not acquired by LBG, and remained as standalone businesses.

EISL was formed in 2016, initially to facilitate the acquisition of assets from the failed Avalon Platform, which operated a range of platform and non-platform administered services, utilising various outsourced technologies and service providers.

A transition program actioned in 2016 was designed to:

- Stabilise the model for the safety of the customers transitioning from Avalon
- Migrate products and services not suitable for platform delivery
- Establish an appropriate long-term operating model, centred on FNZ technology

The transition completed in 2017 comprised of:

- Realisation of the FNZ powered platform and the migration of the Avalon back-book onto this technology
- The outsourcing of non-platformed SIPP capabilities to sister company, Rowanmoor Personal Pensions Ltd
- Outsourcing a range of central services to ECSL
- Establishing a fully connectable 'white label' solution with the first client live
- The commercial launch of the 'Embark Platform' to new clients.

2018 saw the bedding in of the Embark Platform with effort focused on increasing the level of STP, delivering material benefits to operational risk performance alongside general operating efficiencies.

2019 saw the business continue to invest in order to build enhancements to the functional capabilities of the Embark Platform, including adding support for portfolio modelling for Discretionary Investment Managers and the on-boarding of additional 'white label' partners.

In November 2019, EISL acquired the rights to the future migration of the advised and partnership client books of ATS from Interactive Investor Limited, further increasing its presence in the UK investment savings sector. Overall, the transaction brought scale, with more than £7bn of AuA along with around 30,000 new clients to the Embark Platform, alongside gaining the benefit of a highly skilled, experienced leadership and operational team. The migration of the client portfolios took place at the end of 2020 and early 2021 in two tranches.

The principal activity of EISL is a provider of a platform for financial advisers and, in white labelled format, execution-only distribution partners.

EISL launched its new platform, Embark, in December 2017. At the end of 2022, EISL had 19,327 SIPP clients [2021: 15,654] and 185,736 [2021: 139,636] Wrap clients.

In July 2023, EISL announced the launch of the Scottish Widows Platform (rebranded from Embark), simplifying its adviser offering onto a single, platform under the Scottish Widows brand.

Embark Investment Services Nominees Ltd (EISN) is a wholly owned subsidiary company of EISL. Embark Trustees Ltd, owned by EGL, provides trustee services for the Embark SIPP business.

OPERATIONS

Governance System and Structure

Embark is now a subsidiary of SWG, which in turn is a subsidiary of LBG. As such, Embark has seen some significant enhancements to follow many of the processes and practices of LBG. Embark has retained an independent governance structure which is reflected in the independent Group Board and accountability framework, to enable retention of decision making, ability to deliver change, and retention of inherited entrepreneurial culture.

Embark states that it is committed to achieving high standards of corporate governance, integrity and business ethics. Its Board has sub-committees to provide corporate governance and these also meet formally on a quarterly basis. These subcommittees comprise of Non-Executive Directors with Executive Directors in attendance as required. Each of the subcommittees (Audit; Risk, Regulatory & Compliance; Remuneration and Nominations; Customer Outcomes) are governed by terms of reference that have been approved by the Board.

EISL has a Governance committee, with several members of the wider Embark Group having key roles.

Risk Management

As with the governance framework, risk consideration benefits from both a wider Embark group context and also from LBG. The Embark group's risk management framework considers at a detailed level, risks against shareholders' appetite for the following risks: strategic, people, financial, operational, legal and regulatory, proposition, and distribution risk. There is a formal structure for monitoring and managing risks throughout the Group, comprising a risk appetite agreed by the Board and detailed risk management policies, independent governance and risk oversight.

A full review of the risk framework was undertaken in 2022, reflecting the recent corporate activity and sale to LBG, aiming to ensure that all businesses identify both existing and emerging risks and continue to develop appropriate mitigation strategies within a refreshed group framework which aligns to the expectations and appetite of the new parent.

Administration

The platform runs on technology provided by FNZ (UK) Ltd (FNZ). The original 10 year partnership with FNZ for platform technology and administration services was extended at the time of the FNZ investment in Embark, to 2028. Business continuity and disaster recovery plans are managed in conjunction with FNZ.

The platform makes extensive use of straight-through processing to automate all major processes and deliver maximum efficiency for advisers and consumers. It also provides real-time transactions, requires no 'wet' paper signatures, and supports users via online chat, phone and email. Platform implementation is provided alongside a nationwide team of business development managers.

Platform systems are hosted across two mirrored data centres in Edinburgh and London. These are synchronised through real-time data replication technology. Further backup services provide the ability to recover on tertiary hardware, if required. Monitoring of the sites is continuous. This data can be accessed from Embark's administration centres in London, Leicester, Salisbury and Edinburgh.

In response to COVID-19, March 2020 saw EISL's business continuity plan activated across all sites. This saw the majority of its staff transition to fully operating in isolation with all activities being performed remotely, away from core office locations. Based on this continuity of service delivery, the impact on chargeable revenue was minimal, especially as the bulk of Group revenue streams are persistent and backed in the main by pension fund assets. Over 80% of the Embark Group's revenue is recurring annualised fees dependent primarily on the continuity of service which EISL has been able to maintain. EISL is confident that any detrimental impacts can be covered by the available liquidity throughout it and the wider group.

Benchmarks

The platform had not historically featured in many awards, but was highly commended in the UK Platform Awards 2018: Best Use of Platform Technology category.

However, under the ownership of LBG, the Embark platforms (including Advance) were awarded 5 stars at the Financial Adviser Service Awards Platform Category in 2023 and 2022. Embark also took the 'Readers' Choice' award in 2023 (Scottish Widows Platform) and 'Most Improved' in 2022. Embark was awarded 4 stars in the Pensions and Protection Category in 2023 and 2022.

The Scottish Widows Platform was also awarded a Platinum Rating by Asset Adviser in 2023.

Embark was recognised as one of the World's leading WealthTech companies, by being included in the WealthTech 100 list in 2019, 2020, 2021, 2022, & 2023.

Outsourcing

Embark Trustees Ltd (ETL) is the Trustee of the Embark Personal Pension Scheme, while Avalon assets in pensions are held in trust by group subsidiary Avalon SIPP Trustees Ltd. For Embark, all Mutual Funds will be held in the name of its appointed sub Custodian nominee and Exchange Traded Instruments will be held in the name of nominee company EISN.

EISL utilises the services of fellow group subsidiary, Embark Corporate Services Ltd (ECSL), and was recharged in respect of finance, marketing, facilities, human resources, compliance & legal and senior management costs. In 2022 it was also recharged £5.8m [2021: £5.1m] for the use of pension administration software owned by ECSL.

Administration of the non-platformed SIPP capabilities is now provided by ESL.

Additional services and feeds are provided through links with Financial Express and Morningstar.

As the shape of integration within LBG plays out there is scope for the platform to make use of the wider in-house resources and facilities of such a large banking and insurance group.

STRATEGY

Market Positioning
Embark was formed in 2013 with a fifteen year strategic vision to build a leading independent digital retirement platform in the UK that combined the technology strengths of the Wrap Platform market, with the deep pension expertise of the traditional SIPP and SSAS players.

Since its inception, there were significant developments with regards technology, consumer behaviour, consumer knowledge, legislative, regulatory, and competitive dynamics. This enabled the ongoing and incremental implementation of its strategy, with Embark considering that it had established its position as a scale market participant in both the SSAS and full SIPP sectors and, post the completion/integration of its acquisitions in 2019/20, was an established Top 10 Wrap provider in terms of AuA. Newer to the strategic plan was the deployment and development of a multi-asset fund range (‘Horizon’) acquired from Zurich UK.

Embark now finds its strategy linked to that of a wider LBG strategy, as it becomes a crucial component of Scottish Widows' on-platform Intermediary and Retail D2C ambitions (where it will power functionality behind existing group banking and other brands). The acquisition of Embark for LBG 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.

The platform aims to become a leading technology-led retirement-focused platform to financial advisers and execution only distribution partners, offering a 'technology plus people' platform proposition. As part of the acquisition of SIML Embark took over a legacy agreement with Openwork, which was renewed to 2026 but this was before the acquisition by LBG. Embark has since discussed the opportunity of looking to other adviser networks, with these bigger strategic relationships driving more investment into the platform.

Embark states that its proposition is designed to deliver value for money, enabling its clients to profitably service customers of every affluence via a fully integrated dealing solution.

Embark also states that its APIs (Application Programme Interfaces) offer streamlined routes to market and that it is happy to discuss third party arrangements or ‘white labelling’ upon request. Existing agreements have already been put in place, and other 'major' opportunities are envisaged.

The proprietary platform is considered by the company to be scalable. Whilst not offering the full range of wrappers (i.e. no Onshore or Offshore Bonds are available), it aims to differentiate on cost and service grounds from other platforms, and if this is the case it may be attractive to certain types of intermediary.

Scottish Widows Platform is becoming more a channel of distribution than a standalone legal entity within LBG, sharing and benefiting from central services and functional support (e.g. finance, risk, HR, legal, marketing, proposition, IT and Operations) that supports Scottish Widows Retirement Account, the Platform and Halifax Share Dealing Services Ltd.

In terms of promoting distribution of the platform and broader proposition more widely in the adviser market the opportunity is expected to be significantly enhanced by the ability to combine activity within the much larger Scottish Widows sales and support teams.

Proposition
Now under LBG ownership, Embark has an emphasis on organic growth, maximising the return from its recent technology investment and delivering this into LBG as part of the latter's strategic trajectory. This will build on further exposure in the market growth areas of mainstream platform and direct to consumer SIPPs.

D2C partners now include: NatWest, Coutts, Standard Life, Nutmeg, Bestinvest, Charles Stanley, Moneyfarm, Wealthsimple, LV= and HUB Financial Solutions.

IFA distribution was previously the Embark group's core long-term channel in the UK, but that is likely to change under LBG. The acquisitions of the intermediated business of ATS and the retail platform business of Zurich UK brought balance between Embark's Pension and Platform businesses.

The Zurich acquisition also enabled some diversification into multi-asset fund management through the Horizon funds. This acquisition has brought with it more than £11bn of platform AuA and an advised book of around 130,000 clients. It has also added an extensive distribution capability with good reach into the adviser community.

The ATS acquisition allowed both EISL and Embark to accelerate their growth strategy, as well as bringing complementary distribution relationships. This accelerated AuA growth - bringing with it around £6bn in AuA, client number growth and reinforced Embark's position as one of the fastest growing disruptors in the UK investment savings and platform market. It also created an opportunity to establish a centre for operations and growth in Scotland (the historic base of ATS), enabling Embark to access local resource and FinTech capabilities.

EISL provided a low-cost retirement-focused open architecture platform, which was launched in 2017. It partners with BlackRock on account fund management and aims to be a material disruptor with its pricing model.

Embark had been focusing on moving its back book of business onto the platform, which runs on FNZ technology, as well as a number of white label partners. Clients from the Avalon platform have also been transferred to the platform.

The platform offers various products including General Investment Account, Personal Pension, ISA, JISA, Junior Personal Pension and Third Party Investment Account. It aims to provide these products with a transparent pricing structure on open architecture. It does not offer onshore or offshore bond wrappers. It offers: 4,000 mutual funds from over 100 fund managers; over 3,000 listed securities, investment trusts and ETFs; and model portfolios provided by a range of Discretionary Investment Managers (DIMs). The Scottish Widows TPIA allows clients to keep their existing pension while investing on the platform, alongside any savings held in the ISA or GIA. The platform has a low initial contribution level of £50 for the Personal Pension, ISA, JISA and GIA, and a range of flexible contribution frequencies.

Functionality includes: an online audit trail; switching capabilities; fully online drawdown; flexible withdrawals; integrated payroll available on any day; client and adviser reporting; and online elective corporate actions management. Additional tools include: free investment research, including fund research tools and factsheets; and information for Capital Gains Tax (CGT) calculations.

The on-going changes, moving away from a paper-based operation to a technology-led administration, and revamping product and distribution strategies, have and will continue to require further investment now within the new LBG ownership context. LBG has three immediate priorities as it begins to work with Embark:

- Design and launch digital direct to customer propositions for pensions and investment (with a Ready Made Investment proposition having been launched)
- Growing the Platform business & reinvigorate the Retirement Account proposition
- Expand white label capability and solutions

Integration and development appears well considered and achievable, in particular given the resources and strategic rationale. However, it is not with its challenges, not least because the position LBG acquired was one of a number of relatively rapidly acquired constituent parts, already themselves going through integrations.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2022

Capital Resources Disclosures

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Available capital resources	5,103	9,921	9,787
Capital resources requirement (CRR)	1,713	7,947	8,980
Excess capital resources	3,390	1,974	807
CRR coverage ratio (%)	298	125	109

EISL was established with £300m in 2016 and has since received a series of capital injections to support its growth: £1.9m in 2017, £1.7m in 2018 and £9.0m in both 2019 and 2020 covering the ATS acquisition.

In 2022 and 2021, EISL received additional capital of £2.5m and £7.5m, respectively, to support its transformation.

As at 31 December 2022, EISL had regulatory capital of £9.8m and surplus regulatory capital of £0.8m giving a capital ratio of 109% [2021: £9.9m, £2.0m and 125% respectively].

Subsequent to the 2022 year end, a further £3.0m of capital was received on 31 January 2023.

Statement of Financial Position

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Assets	15,954	13,928	17,670
Current liabilities	(1,482)	(2,367)	(5,783)
Long-term liabilities	0	0	0
Net assets	14,472	11,561	11,887

Statement of Changes in Equity

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Equity at start of period	10,124	14,472	11,561
Movement due to:			
Share capital and premium	9,000	7,000	2,500
Retained earnings	(4,650)	(10,430)	(1,605)
Other	(2)	519	(569)
Equity at end of period	14,472	11,561	11,887

With all the capital injections received to date, EISL's share capital has increased to £31.4m [2021: £28.9m], partially offset by retained losses of £19.5m [2021: £17.9m].

With capital injections exceeding retained losses and other negative movements in 2022, net assets increased marginally to £11.9m [2021: £11.6m].

Income Statement

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Revenue	1,592	10,621	17,620
Other operating income	0	0	(44)
Operating expenses	(6,785)	(22,593)	(20,576)
Operating profit (loss)	(5,193)	(11,972)	(3,000)
Other gains (losses)	3	(78)	(116)
Profit (loss) before taxation	(5,190)	(12,050)	(3,116)
Taxation	524	1,598	471
Profit (loss) after taxation	(4,666)	(10,452)	(2,645)
Other comprehensive income	0	0	0
Dividends	0	0	0
Retained profit (loss)	(4,666)	(10,452)	(2,645)

Financial Ratios

	Dec 20 %	Dec 21 %	Dec 22 %
Operating margin	(326)	(113)	(17)
Pre-tax profit margin	(326)	(113)	(18)
Employee costs as a % of revenue	118	34	35

The company reported that overall client numbers increased by 32.1% to 205,063 [2021: 155,290]. Within this Wrap clients increased by 33.1% to 185,736 [2021: 139,636] and SIPP clients by 23.5% to 19,327 [2021: 15,654].

The increase in overall client numbers was driven by the migration of the legacy CUTAS portfolio of clients from SIML, which was completed in January 2022 and included 32,915 Wrap clients and £888m AuA.

The loss before tax decreased to £3.1m [2021: £12.1m] due to the write down of £8.7m of goodwill and intangible assets in 2021. Underlying revenues increased to £17.6m [2021: £10.6m]. This was due to the migration of the legacy CUTAS portfolio of clients from SIML.

Statement of Cash Flows

	Dec 20 £ 000's	Dec 21 £ 000's	Dec 22 £ 000's
Net cash generated from operating activities	(7,066)	(2,742)	2,288
Net cash used in investing activities	3	(78)	(116)
Net cash used in financing activities	9,000	7,000	2,500
Net increase (decrease) in cash and cash equivalents	1,937	4,180	4,672
Cash and cash equivalents at end of period	3,136	7,353	12,203

Assets under Administration (AuA)

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Assets at start of period	436	5,407	8,456
Inflows	601	485	783
Outflows	(251)	(245)	(761)
Net market and other movement	4,621	160	(591)
Assets at end of period	5,407	5,807	7,887
Growth rate (%)	1,140	7	(7)
Net inflows as % of opening AuA	80	4	0

There was net cash generated from operating activities of £2.3m [2021: a net cash outflow from operating activities of £2.7m, impacted by the ATS acquisition] and a capital injection of £2.5m [2021: £7.0m]. Allowing for a small amount of interest paid of £0.1m [2021: £0.1m], there was a net increase in cash and equivalents of £4.7m [2021: £4.2m] to £12.2m [2021: £7.4m].

AuA reduced to £7.9bn [2021: £8.5bn], with market movements partially offset by the transfer of £0.9bn of AuA from SIML.

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/platform.

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 any specifically onerous element such as with profits realistic balance sheet position, 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

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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