

At a glance

As Chair of the Royal London Independent Governance Committee (IGC) I am pleased to present our report for 2022. This section provides a brief 'at a glance' summary of how Royal London has performed against our *Value for Money* and *Environmental, Social and Governance (ESG)* principles, with more detail provided later in the report.

The IGC independently assesses the *Value for Money* that Royal London provides to its *Workplace Pension* and *Investment Pathways* customers. We receive regular reporting from Royal London and consider how Royal London is performing relative to other providers via a *Comparison Study*. We undertake our assessments using our *Value for Money* principles (contained in Appendix 1) which focus on three core factors:

- 1 **Costs and charges**
- 2 **Investment performance**
- 3 **Customer service**

We also assess Royal London's *ESG* policies.

I can report that, overall, we are satisfied Royal London is providing *Value for Money* to *Workplace Pension* and *Investment Pathways* customers.

If the IGC has concerns around the *Value for Money* being delivered, in the first instance we would raise these with the Royal London Board. Should the IGC be dissatisfied with the response, there are a number of escalation options available (which include reporting issues to the *Financial Conduct Authority (FCA)* and contacting customers or employers directly). No material concerns requiring escalation were identified in 2022.

The IGC rates Royal London against our *Value for Money* principles using the following criteria:

■ Measures which have been delivered within an agreed range, where our expectations in terms of quality and delivery have been met in key areas.

■ Delivery against our agreed measures is not as anticipated or the expected quality has not been achieved in some key areas. We have agreed with Royal London the actions and timelines to achieve a green rating (or future performance is expected to achieve a green rating).

■ Areas in which we have provided a material challenge to Royal London (via the Board) and have been unable to agree a way forward.



"I can report that, overall, we are satisfied Royal London is providing *Value for Money* to *Workplace Pension* and *Investment Pathways* customers."

Peter Dorward

Chair of the Royal London Independent Governance Committee

Costs and charges

| | Value for Money principle | 2021 | 2022 |
|----------------------------|-----------------------------|------|------|
| Workplace Pensions | Appropriate ongoing charges | ■ | ■ |
| | Balanced charging | ■ | ■ |
| | Fair exit charges | ■ | ■ |
| Investment Pathways | Appropriate ongoing charges | ■ | ■ |
| | Balanced charging | ■ | ■ |
| | Fair exit charges | ■ | ■ |

- The charges on Royal London's *Retirement Solutions* contracts for *Workplace Pensions* and *Investment Pathways* are fair and appropriate considering the benefits provided. Information about these charges is also easily accessible.
- The charges compare reasonably with competitors, particularly when *ProfitShare* is also considered. We assessed overall *Value for Money* taking *ProfitShare* into account, as this can be considered as offsetting a portion of the charges.
- We believe the charges that Royal London make are reasonable considering the costs of administering contracts and we believe these charges fall fairly across all customer cohorts.
- Some *Longstanding Customers* with *Workplace Pensions* may be able to achieve lower charges elsewhere. However, there are many complexities associated with assessing value for each individual depending on their specific circumstances. We have regular discussions with Royal London in relation to different cohorts of *Longstanding Customers* so that we can challenge them on delivery of *Value for Money* for all customers.
- In the case of a small number of *Workplace Pension* products, exit charges apply. In 2022 Royal London agreed to make a change which made some of these exit charges better reflect the benefits that individual customers received. Royal London has also agreed to continue to investigate other cases with a view to improving benefits for those customers. We welcome the progress made in this area and will report on further actions taken in our 2023 report.

Investment

| | Value for Money principle | 2021 | 2022 |
|----------------------------|--------------------------------|------|------|
| Workplace Pensions | Investment strategy | ■ | ■ |
| | Appropriate investment returns | ■ | ■ |
| Investment Pathways | Investment strategy | ■ | ■ |
| | Appropriate investment returns | ■ | ■ |

- We appreciate that many *Workplace Pension* customers experienced the negative impact of investment market conditions during 2022. Our assessment of 'appropriate investment returns' considers returns achieved by Royal London compared with benchmarks, customer expectations and competitor returns, in the context of the medium to long-term nature of pension investments and an appropriate level of investment risk.
- We focus primarily on the fund range in which the majority of *Workplace Pension* customers are invested. We believe this to be well designed, appropriate for customers' objectives and its aims are clearly set out.
- We are working with Royal London to ensure that all *Workplace Pension* schemes are appropriately invested and governed, particularly where there is a bespoke *Default Fund* and investment advisers retain responsibility for reviewing it.
- Performance and strategy are regularly reviewed by Royal London's *Investment Advisory Committee* which includes independent members.
- The governance framework, process and activity around Royal London's investment proposition was assessed as particularly strong and transparent when compared with other providers via the *Comparison Study*.
- We are also satisfied that the investment strategy for *Workplace Pensions* is appropriate for their target customer group.

Service

| | Value for Money principle | 2021 | 2022 |
|----------------------------|---------------------------|------|------|
| Workplace Pensions | Clear communication | ■ | ■ |
| | Effective service | ■ | ■ |
| | Regular reviews | ■ | ■ |
| Investment Pathways | Clear communication | ■ | ■ |
| | Effective service | ■ | ■ |
| | Regular reviews | ■ | ■ |

- Overall Royal London continues to perform satisfactorily in its communication and service delivery. Royal London’s customer call handling responsiveness is strong compared to other providers. Ease of reading of Royal London communications ranked amongst the best in the *Comparison Study*.
- There are opportunities to improve the support customers receive through the use of a wider range of media and technology solutions. Royal London’s ability to reach all customers could also be improved by updating customer records and contact information. Both aspects continue to be developed and focused on by Royal London and will be reported on further in our 2023 report.
- Service delivery for core transactions for *Workplace Pension* customers has been consistently reliable and overall compares well to other providers. However, efficiency could potentially be improved with greater automation in the processing of certain service requests. The *Comparison Study* suggests that Royal London has a greater reliance on manual processing for some transactions when compared with the other providers.
- For *Investment Pathways* customers, service in early 2022 fell below Royal London’s quality and performance benchmarks and did not compare strongly against other providers. We recognise the heavy reliance on telephone support for customers. Steps were taken to improve the position during 2022 and we are continuing to monitor this closely.
- Royal London continues to be the only provider in the *Comparison Study* not to offer financial advice to customers, either directly or through a partner. We note, however, that these services are not offered by the other firms free of charge to their customers and it is likely that many customers will not have the means or motivation to pay for financial advice. Royal London’s approach is to promote the value of independent financial advice, whilst also investing in the development of digital capabilities and a ‘financial wellbeing’ service to provide guidance for those customers without their own financial adviser.

ESG

| | Principle | 2021 | 2022 |
|---|--|------|------|
| Environmental, Social and Governance (ESG) | Strategy and policy | ■ | ■ |
| | Balanced costs | ■ | ■ |
| | Integration and implementation | ■ | ■ |
| | Communication | ■ | ■ |
| | Customer views | ■ | ■ |
| | Impact on default and self-select funds | ■ | ■ |
| | Internal policy and delivery on <i>ESG</i> | ■ | ■ |
| | External disclosure and reporting | ■ | ■ |

- Our assessment reflects the continuing development and implementation of Royal London’s *ESG* strategy.
- Royal London is committed to responding to the threat of climate change, to tackling broader *ESG* issues and playing its part in moving fairly to a more sustainable world.
- In 2022, Royal London applied for signatory status of the Financial Reporting Council’s *UK Stewardship Code* and its application was accepted in early 2023.
- On the whole Royal London continues to perform satisfactorily on *ESG* and *Responsible Investment*, although 2023 will be an important year for external reporting.

Looking forward

In addition to the aspects mentioned on the previous pages, the following are specific areas of focus for the IGC that we will provide further details on in our 2023 annual report:

Consumer Duty

We have received regular updates from Royal London on the implementation of the FCA's new '*Consumer Duty*'. The *Consumer Duty* requires firms, including Royal London, to be more proactive in the pursuit of good customer outcomes. The deadline to implement the rules for open products and services was the end of July 2023 and implementation for closed books of business is scheduled for the end of July 2024. We expected Royal London to be able to meet its obligations to comply with the *Consumer Duty* for open products and have been kept up to date with action plans in specific areas. Implementing the *Consumer Duty* for closed books of business is expected to present additional challenges and we are receiving regular updates on Royal London's preparations for the July 2024 implementation.

Cost of Living crisis

With rising inflation and falls in 'real' income, the IGC is aware that many people – including Royal London's *Workplace Pension and Investment Pathways* customers – are continuing to face financial strain as a result of the ongoing Cost of Living crisis. This is an area of focus for the IGC and we are particularly considering the measures Royal London has in place, and is developing, to support policyholders who may be suffering financial difficulties.

Advice and guidance

As Royal London does not offer financial advice to customers, we are closely monitoring the development of Royal London's digital capabilities and financial wellbeing service, which aims to provide support and guidance to customers who do not have their own financial adviser. Wealth Wizards, acquired by Royal London in 2021, is expected to support Royal London to further enhance its financial wellbeing service for *Workplace Pension* customers.

Cyber security

With the increasing threat of cyber attacks, particularly within the financial services industry, the IGC is working closely with Royal London to understand the controls in place to protect customers and their data from this threat.

Investment performance

The IGC is aware of the continued volatility in global financial markets, which is impacting investment performance, driven by factors such as the ongoing conflict in Ukraine, political uncertainty and high inflation. We believe Royal London funds are relatively well positioned, with strong diversification making underlying portfolios more resilient to market shocks. However, this is an area we continue to consider by monitoring closely the oversight activities of the *Investment Advisory Committee* in this regard.

We are always looking to improve our reporting and welcome any feedback you have. You can contact us at RoyallondonIGC@royallondon.com

If you have a specific question about a product you have with Royal London, visit the Royal London website.

Details of all IGC members can be found at Appendix 10. I would like to thank my fellow IGC members and everyone involved with the IGC for their continued contribution and support to ensure the IGC is able to perform its important role effectively.

Peter Dorward

Chair of the Royal London Independent Governance Committee